

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 20-F/A  
(Amendment No.1)

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES EXCHANGE ACT OF 1934
- OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934#or the fiscal year ended September 30, 2021
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
- OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-38146  
**ZK INTERNATIONAL GROUP CO., LTD.**

(Exact name of Registrant as specified in its charter)

British Virgin Islands  
(Jurisdiction of incorporation or organization)  
c/o Zhejiang Zhengkang Industrial Co., Ltd.  
No. 678 Dingxiang Road, Binhai Industrial Park  
Economic & Technology Development Zone  
(Address of principal executive offices)

Di Chen, *Corporate Secretary*  
+86-577-86852999  
zjzk@cn-zk.cn

c/o Zhejiang Zhengkang Industrial Co., Ltd.  
No. 678 Dingxiang Road, Binhai Industrial Park  
Economic & Technology Development Zone

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary shares, no par value per share	ZKIN	Nasdaq Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 918,177 Ordinary shares as of September 30, 2021.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

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, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, 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 which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

**Explanatory Note**

ZK International Group Co., Ltd. is filing this Amendment No. 1 to Form 20-F (the “Amendment No. 1”) to our annual report on Form 20-F for the year ended September 30, 2021, filed with the Securities and Exchange Commission on January 28, 2022 (the “Original Filings”), to update the information regarding the Company’s unique risks with operations conducted by our subsidiaries based in China, in which the section titled “Conventions Used in this Annual Report”, Item 3 Key Information, Item 5 Operating and Financial Review and Prospectus, and Item 10 Additional Information have been adjusted, and to correct a typological error of the name of a director and the chair of the audit committee of the board of director of the company “Xuejie Lyu”, in which Item 6 Directors, Senior Management and Employee and Item 7 Major Shareholders and Related Party Transactions have been adjusted. As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by our chief executive officer and chief financial officer are being filed as exhibits to this Amendment No. 1.

This Amendment No. 1 speaks as of the filing date of the Original Filings. Other than as set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate any other information or disclosure included in the Original Filings, or reflect any events that have occurred since the date thereof.

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### Conventions Used in this Annual Report

Except where the context otherwise requires and for purposes of this annual report on Form 20-F only, “we,” “us,” “our company,” “Company,” “our” and “ZK” refer to:

- Wenzhou Weijia Pipeline Development Co., Ltd. (also referred to as 温州维佳管道发展有限公司 in China), a PRC company (“Wenzhou Weijia” when individually referenced), which is a wholly-owned subsidiary of ZK Pipe;
- Wenzhou Zhengfeng Industry and Trade Co., Ltd. (also referred to as 温州正丰工贸有限公司 in China), a PRC company (“Wenzhou Zhengfeng” when individually referenced), which is a wholly-owned subsidiary of Zhejiang Zhengkang; and
- xSigma Corporation, a British Virgin Islands company limited by ordinary shares (“xSigma Corporation” when individually referenced), 51% of its equity interest is held by ZK International;
- xSigma Collectibles Limited, a British Virgin Islands company limited by ordinary shares (“xSigma Collectibles” when individually referenced), a wholly-owned subsidiary of ZK International;
- xSigma Entertainment Limited, a British Virgin Islands company limited by ordinary shares (“xSigma Entertainment” when individually referenced), a wholly-owned subsidiary of ZK International;
- xSigma Trading, LLC, a Delaware limited liability company (“xSigma Trading, LLC” when individually referenced), a wholly-owned subsidiary of xSigma Corporation;
- ZK International Group Co., Ltd., a British Virgin Islands company limited by ordinary shares (“ZK International” when individually referenced);
- ZK International Uganda Limited, a company incorporated under the laws of the Republic of Uganda (“ZK Uganda” when individually referenced), 80% of its equity interest is held by ZK International;
- ZK Pipe Industry Co., Ltd., a Hong Kong limited company (“ZK Pipe” when individually referenced), which is a wholly-owned subsidiary of ZK International;
- Zhejiang Zhengkang Industrial Co., Ltd. (also referred to as 浙江正康实业股份有限公司 in China), a PRC company (“Zhejiang Zhengkang” when individually referenced), 99% of its equity interest is held by Wenzhou Weijia;

**Investors are cautioned that you own interest in ZK International, the holding company established in the British Virgin Islands that does not have conduct material operations. ZK International conducts business through its subsidiaries, primarily based in China.**

This annual report contains translations of certain RMB amounts into U.S. dollar amounts at a specified rate solely for the convenience of the reader. All reference to “U.S. dollars”, “USD”, “US\$” or “\$” are to United States dollars. The exchange rates in effect as of September 30, 2021, 2020, and 2019 were US \$1.00 for RMB 6.4434, RMB 6.7896, and RMB 7.1477, respectively. The average exchange rates for the years ended September 30, 2021, 2020 and 2019 were US \$1.00 for RMB 6.5072, RMB 7.0056, and RMB 6.8753, respectively. We use period-end exchange rates for assets and liabilities and average exchange rates for revenue and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. Any discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

We obtained the industry and market data used in this annual report or any document incorporated by reference from industry publications, research, surveys and studies conducted by third parties and our own internal estimates based on our management’s knowledge and experience in the markets in which we operate. We did not, directly or indirectly, sponsor or participate in the publication of such materials, and these materials are not incorporated in this annual report other than to the extent specifically cited in this annual report. We have sought to provide current information in this annual report and believe that the statistics provided in this annual report remain up-to-date and reliable, and these materials are not incorporated in this annual report other than to the extent specifically cited in this annual report.

**SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

Certain matters discussed in this report may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended (the “Securities Act”), and the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements. The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” and similar expressions are intended to identify such forward-looking statements. Our actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation, those discussed under “Item 3—Key Information—Risk Factors,” “Item 4—Information on the Company,” “Item 5—Operating and Financial Review and Prospects,” and elsewhere in this report, as well as factors which may be identified from time to time in our other filings with the Securities and Exchange Commission (the “SEC”) or in the documents where such forward-looking statements appear. All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements.

The forward-looking statements contained in this report reflect our views and assumptions only as of the date this report is signed. Except as required by law, we assume no responsibility for updating any forward-looking statements.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable for annual reports on Form 20-F.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable for annual reports on Form 20-F.

**ITEM 3. KEY INFORMATION**

**Implications of the Holding Foreign Companies Accountable Act (“HFCAA”)**

On March 24, 2021, the SEC adopted interim final rules relating to the implementation of certain disclosure and documentation requirements of the HFCAA. An identified issuer will be required to comply with these rules if the SEC identifies it as having a “non-inspection” year under a process to be subsequently established by the SEC. In June 2021, the Senate passed the Accelerating Holding Foreign Companies Accountable Act, which, if signed into law, would reduce the time period for the delisting of foreign companies under the HFCAA to two consecutive years instead of three years. If our auditor cannot be inspected by the Public Company Accounting Oversight Board, or the PCAOB, for two consecutive years, the trading of our securities on any U.S. national securities exchanges, as well as any over-the-counter trading in the U.S., will be prohibited. On September 22, 2021, the PCAOB adopted a final rule implementing the HFCAA, which provides a framework for the PCAOB to use when determining, as contemplated under the HFCAA, whether the PCAOB is unable to inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction. On December 2, 2021, the SEC issued amendments to finalize rules implementing the submission and disclosure requirements in the HFCAA. The rules apply to registrants that the SEC identifies as having filed an annual report with an audit report issued by a registered public accounting firm that is located in a foreign jurisdiction and that PCAOB is unable to inspect or investigate completely because of a position taken by an authority in foreign jurisdictions. On December 16, 2021, the PCAOB issued a report on its determinations that it is unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in mainland China and in Hong Kong, because of positions taken by PRC authorities in those jurisdictions.

Neither ZK International nor any of its subsidiaries has been identified and we do not expect ZK International or any of its subsidiaries to be identified by the Commission under the HFCAA. Our auditor, ZH CPA, LLC, is headquartered in Denver, Colorado, and is subject to inspection by the PCAOB on a regular basis. ZH CPA, LLC is not subject to the determinations as to the inability to inspect or investigate registered firms completely announced by the PCAOB on December 16, 2021. However, recent developments with respect to audits of China-based companies create uncertainty about the ability of ZH CPA, LLC to fully cooperate with the PCAOB’s request for audit workpapers without the approval of the Chinese authorities. We cannot assure you whether Nasdaq or regulatory authorities would apply additional and more stringent criteria to us after considering the effectiveness of our auditor’s audit procedures and quality control procedures, adequacy of personnel and training, or sufficiency of resources, geographic reach or experience as it relates to the audit of our financial statements. In the event it is later determined that the PCAOB is unable to inspect or investigate completely the Company’s auditor because of a position taken by an authority in a foreign jurisdiction, then such lack of inspection could cause trading in the Company’s securities to be prohibited under the HFCAA ultimately result in a determination by a securities exchange to delist the Company’s securities. In addition, under the HFCAA, our securities may be prohibited from trading on the Nasdaq or other U.S. stock exchanges if our auditor is not inspected by the PCAOB for three consecutive years, which could be reduced to two consecutive years if the Accelerating Holding Foreign Companies Accountable Act is signed into law. If we cannot engage a new auditor within a reasonable time under reasonable terms, our ordinary shares may be delisted, and the price of our ordinary shares may significantly decrease or become worthless. See “Item 3.D Risk Factors — Risks Related to Our Ordinary Shares — Our ordinary shares may be delisted under the Holding Foreign Companies Accountable Act if the PCAOB is unable to inspect our auditors for three consecutive years beginning in 2021. The delisting of our ordinary shares, or the threat of their being delisted, may materially and adversely affect the value of your investment” on page 41.

## Corporate Structure and the Risks Relating to Being a China-based Company

ZK International is a British Virgin Islands incorporated holding company without any material operations. ZK International conducts business through its subsidiaries, primarily based in China. ZK International does not conduct business through variable interest entity structure. Our corporate structure involves unique risks to investors. For more details of risks related to our corporate structure, see “Item 3.D Risk Factors — Risks Related to Our Corporate Structure — ZK International is a holding company and will rely on dividends paid by our subsidiaries for our cash needs. Any limitation on the ability of our subsidiaries to make dividend payments to us, or any tax implications of making dividend payments to us, could limit our ability to pay our expenses or pay dividends to holders of our ordinary shares.” on page 40 and “PRC regulation of loans to and direct investment in PRC entities by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC operating subsidiaries.” starting on page 41.

The PRC subsidiaries, Wenzhou Weijia, Wenzhou Zhengfeng, and Zhenjiang Zhengkang, are subject to various legal and operational risks associated with being based in China and having a majority of operations in China. The PRC government has significant authority to exert influence on the ability of a China-based company to conduct its business, accept foreign investments or be listed on a U.S. or other foreign exchange. The PRC government has initiated a series of regulatory actions and statements recently to regulate business operations in China with little advance notice, including cracking down on illegal activities in the securities market, adopting new measures to extend the scope of cybersecurity reviews, and expanding the efforts in anti-monopoly enforcement. As of the date of this annual report, we and our PRC subsidiary have not been involved in any investigations on cybersecurity review initiated by any PRC regulatory authority, nor has any of them received any inquiry, notice, or sanction. However, since these statements and regulatory actions are new, it is highly uncertain how soon legislative or administrative regulation making bodies will respond and what existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated, if any, and the potential impact such modified or new laws and regulations will have on the ability of the PRC subsidiaries to conduct business, accept foreign investments, and list on an U.S. or other foreign exchange. These risks may result in a material change in the operations of the PRC subsidiaries, significant depreciation of the value of our ordinary shares, or a complete hindrance of our ability to offer or continue to offer our securities to investors and cause the value of such securities to significantly decline or be worthless. See “Risk Factors — Risks Related to Doing Business in China — The Chinese government may intervene or influence the operations of the PRC subsidiaries at any time. Such risks may result in a material change in the operations of the PRC subsidiaries, significant depreciation of the value of our ordinary shares, or a complete hindrance of our ability to offer or continue to offer our securities to investors and cause the value of such securities to significantly decline or be worthless.” on page 32, “— The Chinese government exerts substantial influence over the manner in which the PRC subsidiaries must conduct business activities. We are currently not required to obtain approval from Chinese authorities to list on U.S. exchanges, however, if our holding company or subsidiaries were required to obtain approval in the future and were denied permission from Chinese authorities to list on U.S. exchanges, we will not be able to continue listing on U.S. exchange, which may cause the value of our ordinary shares to significantly decline or be worthless.” on page 33, and “— The approval of the China Securities Regulatory Commission may be required in connection with future offerings, and, if required, we cannot predict whether we will be able to obtain such approval.” on page 34

### Summary of Risk Factors

Investing in our Company involves significant risks. You should carefully consider all of the information in this prospectus before making an investment in our Company. Below please find a summary of the risks and challenges we face organized under relevant headings. These risks are discussed more fully in the section titled “Item 3.D. Risk Factors” in our Annual Report, as amended, on Form 20-F for the year ended September 30, 2021, which is incorporated in this prospectus by reference.

### Risks Related to Doing Business in China

*Risks related to the Chinese government’s exertion of substantial influence over the manner in which we must conduct our business activities. If our holding company or subsidiaries were required to obtain approval in the future and were denied permission from Chinese authorities to list on U.S. exchanges, we will not be able to continue listing on U.S. exchange, which may cause the value of our ordinary shares to significantly decline or be worthless.*

The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, and government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties.

On June 10, 2021, the Standing Committee of the National People's Congress enacted the PRC Data Security Law, which took effect on September 1, 2021. On August 20, 2021, the 30th meeting of the Standing Committee of the 13th National People's Congress voted and passed the "Personal Information Protection Law of the People's Republic of China", or "PRC Personal Information Protection Law", which became effective on November 1, 2021. On December 28, 2021, the CAC jointly with the relevant authorities formally published Measures for Cybersecurity Review (2021) which became effective on February 15, 2022 and replace the former Measures for Cybersecurity Review (2020) issued on July 10, 2021. We believe that neither we nor our subsidiaries are currently required to obtain permission from any of the PRC authorities to operate and issue our ordinary shares to foreign investors, or required to obtain permission or approval from the CSRC, Cyberspace Administration of China ("CAC") or any other governmental agency. As of the date of this prospectus, we and our PRC subsidiary have not been involved in any investigations on cybersecurity review initiated by any PRC regulatory authority, nor has any of them received any inquiry, notice, or sanction. Because these statements and regulatory actions are new, however, it is highly uncertain how soon legislative or administrative regulation making bodies in China will respond to them, or what existing or new laws or regulations will be modified or promulgated, if any, or the potential impact such modified or new laws and regulations will have on our daily business operations or our ability to accept foreign investments and list on an U.S. exchange. If we do not receive or maintain the approval, or inadvertently conclude that such approval is not required, or applicable laws, regulations, or interpretations change such that we are required to obtain approval in the future, we may be subject to an investigation by competent regulators, fines or penalties, or an order prohibiting us from conducting an offering, and these risks could result in a material adverse change in our operations and the value of our ordinary shares, significantly limit or completely hinder our ability to offer or continue to offer securities to investors, or cause such securities to significantly decline in value or become worthless. See "Item 3.D. Risk Factors — Risks Related to Doing Business in China — The Chinese government exerts substantial influence over the manner in which the PRC subsidiaries must conduct business activities. We are currently not required to obtain approval from Chinese authorities to list on U.S. exchanges, however, if our holding company or subsidiaries were required to obtain approval in the future and were denied permission from Chinese authorities to list on U.S. exchanges, we will not be able to continue listing on U.S. exchange, which may cause the value of our ordinary shares to significantly decline or be worthless" on page 33.

***Risks related to the Chinese government's intervene or influence on the operations of the PRC subsidiaries.***

The Chinese government may intervene or influence the operations of the PRC subsidiaries at any time. Such risks may result in a material change in the operations of the PRC subsidiaries, significant depreciation of the value of our ordinary shares, or a complete hindrance of our ability to offer or continue to offer our securities to investors and cause the value of such securities to significantly decline or be worthless. See "Item 3.D. Risk Factors — Risks Related to Doing Business in China — The Chinese government may intervene or influence the operations of the PRC subsidiaries at any time. Such risks may result in a material change in the operations of the PRC subsidiaries, significant depreciation of the value of our ordinary shares, or a complete hindrance of our ability to offer or continue to offer our securities to investors and cause the value of such securities to significantly decline or be worthless" on page 32.

***Risks related to the approval of the China Securities Regulatory Commission may be required in connection with this offering, and, if required, we cannot predict whether we will be able to obtain such approval.***

On August 8, 2006, six PRC regulatory agencies, including the CSRC, adopted the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. On July 6, 2021, the State Council and General Office of the CPC Central Committee issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. On December 24, 2021, the CSRC, together with other relevant government authorities in China issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), and the Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) ("Draft Overseas Listing Regulations"). There remain uncertainties as to whether the Draft Overseas Listing Regulations are applicable to us and our continued listing on Nasdaq. If it is determined that CSRC approval is required for our continued listing, we may face sanctions by the CSRC or other PRC regulatory agencies for failure to seek CSRC approval for this offering. These sanctions may include fines and penalties on our operations in the PRC, limitations on our operating privileges in the PRC, suspension of business operations in the PRC, delays in or restrictions on the repatriation of the proceeds from this offering into the PRC, restrictions on or prohibition of the payments or remittance of dividends by our PRC subsidiary, or other actions that could have a material and adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ordinary shares. See "Item 3.D. Risk Factors — Risks Related to Doing Business in China — The approval of the China Securities Regulatory Commission may be required in connection with future offerings, and, if required, we cannot predict whether we will be able to obtain such approval" on page 34.



***Risks related to the Opinions recently issued by the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council may subject us to additional compliance requirement in the future.***

Recently, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued Opinions emphasizing the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies. Since these Opinions were recently issued, official guidance and interpretation of the Opinions remain unclear in several respects at this time. Therefore, we cannot assure you that we will remain fully compliant with all new regulatory requirements of the Opinions or any future implementation rules on a timely basis, or at all. See “Item 3.D. Risk Factors — Risks Related to Doing Business in China — The Opinions recently issued by the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council may subject us to additional compliance requirement in the future” on page 34.

***Risks related to becoming subject to recent scrutiny, criticism and negative publicity involving U.S.-listed Chinese companies, could harm our business operations, reputation and result in a loss of your investment in our stock, especially if such matter cannot be addressed and resolved favorably.***

Recently, U.S. public companies with substantially their operations in China, have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the SEC. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. It is not clear what effect this sector-wide scrutiny, criticism and negative publicity will have on our company and our business. If we become the subject of any unfavorable allegations, it may be a major distraction to our management. If such allegations are not proven to be groundless, our company and business operations will be severely hampered and your investment in our stock could be rendered worthless. See “Item 3.D. Risk Factors — Risks Related to Doing Business in China — If we become directly subject to the recent scrutiny, criticism and negative publicity involving U.S.-listed Chinese companies, we may have to expend significant resources to investigate and resolve the matter which could harm our business operations and our reputation and could result in a loss of your investment in our stock, especially if such matter cannot be addressed and resolved favorably” on page 35.

***Risks related to adverse change in political and economic policies of the PRC government***

Substantially all of our operations are located in China. Accordingly, our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole. See “Item 3.D. Risk Factors—Risks Related to Doing Business in China—Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and materially and adversely affect our competitive position” on page 35.

***Risks related to the imposition of trade barriers and taxes that may reduce our ability to do business internationally, and the resulting loss of revenue could harm our profitability.***

We may experience barriers to conducting business and trade in our targeted emerging markets in the form of delayed customs clearances, customs duties and tariffs, and there can be no assurance that this will not reduce the level of sales that we achieve in such markets, which would reduce our revenues and profits. See “Item 3.D. Risk Factors — Risks Related to Doing Business in China — Imposition of trade barriers and taxes may reduce our ability to do business internationally, and the resulting loss of revenue could harm our profitability” on page 36.

***Risks related to our operations and assets in the PRC since shareholders may find it difficult to enforce a U.S. judgment against the assets of our company, our directors and executive officers.***

Most of our executive officers and directors are non-residents of the U.S., and substantially all the assets of such persons are located outside the U.S. As a result, it could be difficult for investors to effect service of process in the U.S., or to enforce a judgment obtained in the U.S. against us or any of these persons. See “Item 3.D. Risk Factors — Risks Related to Doing Business in China — Since the operations of the PRC subsidiaries and substantially all of our assets are located in the PRC, shareholders may find it difficult to enforce a U.S. judgment against the assets of our company, our directors and executive officers” on page 36.

***Risks related to our uncertainty with respect to the PRC legal system which could adversely affect us.***

We conduct all our business through subsidiaries in China and our PRC subsidiaries are generally subject to laws and regulations applicable to foreign investments, and wholly foreign-owned enterprises. Uncertainties regarding the enforcement of laws and the fact that rules and regulations in China can change quickly with little advance notice, along with the risk that the Chinese government may intervene or influence our PRC Subsidiaries' operations at any time, or may exert more oversight and control over offerings conducted overseas and/or foreign investment in issuers with substantial operations in China could result in a material change in our operations or financial performance and/or could result in a material reduction in the value of our ordinary shares or hinder our ability to raise necessary capital. See "Item 3.D. Risk Factors — Risks Related to Doing Business in China — Uncertainties regarding the enforcement of laws and that rules and regulations in China can change quickly with little advance notice could adversely affect us" on page 37.

***Risks related to the Chinese governmental control of currency conversion may affect the value of your investment.***

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our security-holders. See "Item 3.D. Risk Factors—Risks Related to Doing Business in China— Governmental control of currency conversion may affect the value of your investment" on page 38.

***Risks related to PRC subsidiaries' ability to increase their registered capital or distribute profits to us***

PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, which could adversely affect our business and prospects. See "Item 3.D. Risk Factors-Risks Related to Doing Business in China - PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law" on page 39.

**Risks Related to Our Corporate Structure**

***Risks related to our status as a holding company which makes us reliant on dividends paid by our subsidiaries for our cash needs.***

We are a BVI holding company and conduct substantially all of our business through our subsidiaries in China. We may rely on dividends to be paid by our PRC subsidiaries to fund our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict our PRC subsidiaries' ability to pay dividends or make other distributions to us. See "Item 3.D. Risk Factors — Risks Related to Our Corporate Structure — ZK International is a holding company and will rely on dividends paid by our subsidiaries for our cash needs. Any limitation on the ability of our subsidiaries to make dividend payments to us, or any tax implications of making dividend payments to us, could limit our ability to pay our expenses or pay dividends to holders of our ordinary shares" on page 40 and "— PRC regulation of loans to and direct investment in PRC entities by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC operating subsidiaries" on page 41.

**Risks Related to Our Business and Industry**

***Risks Related to the coronavirus (COVID-19) pandemic.***

Zhejiang Province, where we conduct a substantial part of our business, was materially impacted by the spread of a novel strain of coronavirus (COVID-19). The extent to which the COVID-19 outbreak continues to impact our financial condition and results of operations for cannot be reasonably estimated at this time and will depend on future developments that currently cannot be predicted. See "Item 3.D. Risk Factors — Risks Related to Our Business and Industry — Our business could be materially harmed by the ongoing coronavirus (COVID-19) pandemic" on page 19.

***Risks relating to operating in a highly competitive industry.***

We face competition from both regional and importing manufacturers for pipe and fitting products because the market is fragmented, has low barriers to entry, and is driven for many of our products on the basis of price. Competitors may be able to grow and consolidate, as to take advantage of economies of scale, which could put pressure on our margins and adversely affect our financial condition or ability to expand our business. See “Item 3.D. Risk Factors — Risks Related to Our Business and Industry — Our industry is very competitive in China” on page 20.

***Risks related to any decline in the availability or increase in the cost of raw materials.***

Our pipe and fitting manufacturing operations depend heavily on the availability of various raw materials and energy resources. Any decline in the availability of raw material or fluctuation in the prices for raw materials or energy resources could materially increase our costs and therefore lower our earnings. See “Item 3.D. Risk Factors — Risks Related to Our Business and Industry — Any decline in the availability or increase in the cost of raw materials could materially affect our earnings” on page 20.

***Risks related to outstanding bank loans.***

If we are unable to make our payments when due or to refinance such amounts, our property could be foreclosed and our business could be negatively affected. See “Item 3.D. Risk Factors — Risks Related to Our Business and Industry — Outstanding bank loans may reduce our available funds” on page 20.

***Risks related to our potential for weak liquidity.***

If we continue to experience an increase in accounts receivable without substantial collection of them, this weak liquidity could have a material adverse effect on our financial health and performance. See “Item 3.D. Risk Factors — Risks Related to Our Business and Industry — Weak liquidity may have material adverse effect on our results of operations” on page 31.

***Risks related to any supply chain disruption.***

Supply chain fragmentation and local protectionism within China may complicate supply chain disruption risks. Limitations inherent within the supply chain, including competitive, governmental, legal, natural disasters, and other events could cause significant disruptions to our supply chain, manufacturing capability and distribution system. These disruptions could adversely impact our ability to produce and deliver products. See “Item 3.D. Risk Factors — Risks Related to Our Business and Industry — Any disruption in the supply chain of raw materials and our products could adversely impact our ability to produce and deliver products” on page 21.

***Risks related to our failure to protect our intellectual property rights, which could harm our business and competitive position.***

Because of ambiguities in the PRC laws and enforcement difficulties, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other western countries. Furthermore, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to resort to litigation to enforce or defend patents issued to us or to determine the enforceability, scope, and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation, if any, could result in substantial costs and diversion of resources and management attention, which could materially and adversely harm our business and competitive position. See “Item 3.D. Risk Factors — Risks Related to Our Business and Industry — If we fail to protect our intellectual property rights, it could harm our business and competitive position” on page 23.

**Risks Related to Investment in CG Malta Holding Limited**

***Risks related to becoming an investment company under U.S. federal securities law, which may require us to fundamentally restructure our business or potentially to cease operations.***

If we are deemed to be an “investment company” under the Investment Company Act and cannot otherwise qualify for an exception or exemption from such definition, we would be required to register under the Investment Company Act as an investment company, fundamentally restructure our business or cease operations. If we were to register as an investment company after obtaining an order permitting us to do so, we would not be able to operate our business as we currently intend to conduct it. If we were to decide to not register under the Investment Company Act or if we were unable to register under the Investment Company Act, we would have to fundamentally restructure our business or cease operations. If we were found in violation of the Investment Company Act, we could become subject to monetary penalties or injunctive relief, or both. The abrupt change in our structure or operations due to these impacts of registering as an investment company or violating the Investment Company Act could materially and negatively affect our operations. See “Item 3.D. Risk Factors — Risks Related to Investment in CG Malta Holding Limited — We are subject to the risk of becoming an investment company under U.S. federal securities law, which may require us to fundamentally restructure our business or potentially to cease operations” on page 25.

***Risks related to the potential for our designation as a “Passive Foreign Investment Company” in the future.***

A non-U.S. corporation will be treated as a “Passive Foreign Investment Company” (“PFIC”) for U.S. Federal Income Tax purpose if at least 75% its gross income is “passive income” or on average at least 50% of the value of its assets is attributable to assets that produce passive income. It is likely that xSigma Entertainment’s investment in CG Malta Holding Limited would be deemed passive. If xSigma Entertainment completes the full investment in CG Malta Holding Limited, there is a risk that the Company will become an investment company, a PFIC or both. The consequence of any of those scenarios, or even the perception that such scenarios could occur, could result in a material change in our operations, a significant drop in the market price of our ordinary shares, possible civil litigation and regulatory enforcement. See “Item 3.D. Risk Factors — Risks Related to Investment in CG Malta Holding Limited — We could be deemed as a ‘Passive Foreign Investment Company’ in the future” on page 26.

***Risks related to the online gaming and interactive entertainment industry because it is a new and evolving industry.***

The industry may be affected by, among other things, developments in gaming platforms, legal and regulatory. Thus, CG Malta Holding Limited may become subject to additional compliance and subject to related costs, which may adversely affect the return on our investment in CG Malta Holding Limited. See “Item 3.D. Risk Factors — Risks Related to Investment in CG Malta Holding Limited — The online gaming and interactive entertainment industry is a new and evolving industry, presenting significant uncertainty and business risks for CG Malta Holding Limited” on page 26.

**Risks Related to the Stablecoin Exchange Platform**

***Risks related to our dependency on the volume of transactions conducted on the stablecoin exchange platform.***

xSigma Corporation plans to generate commission revenue from the stablecoin in connection with the exchange by users through the stablecoin exchange platform. Due to the coin’s low trading volume and unstable market price, the exchange does not recognize revenue for the token until monetization of the token. As such, if xSigma Corporation does not manage to grow the transaction volume, our business, operating results and financial conditions would be adversely affected. See “Item 3.D. Risk Factors — Risks Related to the Stablecoin Exchange Platform — Our total revenue will be dependent on volume of transactions conducted on the stablecoin exchange platform. If xSigma Corporation does not manage to grow such volume, our business, operating results, and financial condition would be adversely affected” on page 26.

***Risks related to Cryptocurrency, including stablecoin, because it is not legal tender, is not backed by the U.S. government or most other governments, and customer balances are not covered by FDIC or SIPC protections.***

Although they are considered fiat-backed stablecoins. They are not legal tender, are not backed by the U.S. government or most other governments and customer balances are not covered by FDIC or SIPC protections. Federal, state and foreign governments may restrict the use and exchange of cryptocurrency, including the stablecoins, and regulation in the U.S. and in other countries is still developing. xSigma Corporation’s ability to operate the stablecoin exchange platform may be limited by these restrictions which may reduce liquidity of cryptocurrencies in the market and damage their public perception, and their utility as a payment system, which could decrease the price of cryptocurrencies generally or individually. It is possible that the adoption of cryptocurrencies may slow, take longer to develop or never be broadly adopted, which would negatively impact xSigma Corporation’s business, financial condition and results of operations. See “Item 3.D. Risk Factors — Risks Related to the Stablecoin Exchange Platform — Cryptocurrency, including stablecoin, is not legal tender, is not backed by the U.S. government or most other governments, and customer balances are not covered by FDIC or SIPC protections. The value of a cryptocurrency may be derived in large part from the continued willingness of market participants to exchange legal tender for cryptocurrency, or a particular cryptocurrency for another, which, if such willingness diminishes or disappears, may result in permanent and total loss of value for that particular cryptocurrency” on page 28.

***Risks related to the regulation of the cryptocurrency industry which is incipient, fragmented and complex is likely to substantially change and xSigma Corporation's interpretations of any cryptocurrency regulation may be challenged or its failure to comply with regulations may negatively impact its operations.***

xSigma Corporation's stablecoin exchange platform currently provides customers with the ability to exchange a limited number of DAI, USDC and USDT. Both domestic and foreign regulators and governments are increasingly focused on the regulation of cryptocurrencies however, there is currently no uniform applicable legal or regulatory regime governing cryptocurrencies in the United States. Thus, there is a substantial risk of inconsistent regulatory guidance among federal and state agencies and state governments which, along with potential accounting and tax issues or other requirements relating to cryptocurrencies, could impede xSigma Corporation's growth and operations. See "Item 3.D. Risk Factors — Risks Related to the Stablecoin Exchange Platform — Regulation of the cryptocurrency industry is incipient, fragmented and complex and will likely change substantially. xSigma Corporation's interpretations of any cryptocurrency regulation may be subject to challenge by the relevant regulators and xSigma Corporation's failure to comply with such regulation may negatively impact its ability to allow customers to buy, hold and sell cryptocurrencies with it in the future and may materially adversely affect its business, financial condition and results of operations" on page 29.

***Risks related to Cryptocurrency's status as a "security" in any jurisdiction which is subject to a high degree of uncertainty and xSigma Corporation inability to properly characterize cryptocurrency may subject it to federal or state regulatory scrutiny, investigations, fines and other penalties.***

The SEC has taken the position that certain cryptocurrencies fall within the definition of a "security" under the U.S. federal securities laws but that the application of the securities laws to cryptocurrencies may not be warranted in every instance. More so, platforms that bring together purchasers and sellers to trade cryptocurrencies are generally subject to registration as national securities exchanges, or must qualify for an exemption. In the event that the SEC, a foreign regulatory authority, or court were to determine that a stablecoin currently offered, sold or exchanged on the xSigma Corporation's platform is a "security" under applicable laws, xSigma Corporation could be subject to legal or regulatory action. Such an action may adversely affect xSigma Corporation's business, financial condition and results of operations. See "Item 3.D. Risk Factors — Risks Related to the Stablecoin Exchange Platform — A particular cryptocurrency's status as a 'security' in any jurisdiction is subject to a high degree of uncertainty and if xSigma Corporation is unable to properly characterize a cryptocurrency it may be subject to federal or state regulatory scrutiny, investigations, fines and other penalties, which may adversely affect xSigma Corporation's business, financial condition and results of operations" on page 30.

#### **Risks Related to The Equity, Contract For Differences (CFD) and Crypto Trading Platform**

***Risks related to xSigma Corporation's implementation of know-your-customer procedures to prevent offers and sales of CFD and Crypto assets in the United States or to U.S. persons, in the face of risks related to outdated, inaccurate, false or misleading information and the use of virtual private network to visit xSigma's trading platform.***

Although xSigma Trading or its licensed partners will take measures to screen accounts, block IP of users from U.S. sanctioned countries, and conduct KYC procedures at account opening and on an annual basis thereafter, xSigma Corporation cannot fully confirm the accuracy, currency and completeness of such information beyond reasonable effort. Furthermore, xSigma Corporation may not be able to prevent users from using virtual private network or other high technology measures to circumvent the blacklist IP address to visit the websites. If xSigma Corporation fails to comply with relevant laws and regulations, xSigma Corporation will be subject to legal or regulatory sanctions, fines or penalties, financial loss, or damage to reputation. See "Item 3.D. Risk Factors — Risks Related to The Equity, Contract For Differences (CFD) and Crypto Trading Platform — Although xSigma Corporation have the know-your-customer, or KYC procedures to prevent offers and sales of CFD and Crypto assets in the United States or to U.S. persons, xSigma Corporation faces the risks related to the KYC procedures when the clients provide outdated, inaccurate, false or misleading information or use virtual private network to visit xSigma Trading, the equity, CFD and Crypto trading platform" on page 31.

### **Risks Related to the Non-fungible Token (NFT) Marketplace**

***Risks related to the failure to safeguard and manage xSigma Collectibles' customers' fiat money and crypto assets could adversely impact our business, operating results, and financial condition.***

Any failure by xSigma Collectibles or its service providers to manage customers' crypto assets and funds appropriately and in compliance with applicable regulatory requirements could result in reputational harm, significant financial losses, lead customers to discontinue or reduce their use of our products, and result in significant penalties and fines, which could adversely impact our business, operating results, and financial condition. See "Item 3.D. Risk Factors — Risks Related to the Non-fungible Token (NFT) Marketplace — The failure to safeguard and manage xSigma Collectibles' customers' fiat money and crypto assets could adversely impact our business, operating results, and financial condition" on page 32.

### **Risks Related to Our Ordinary Shares**

***Risks that trading in our securities may be prohibited under the Holding Foreign Companies Accountable Act if the PCAOB determines that it cannot inspect or investigate completely our auditor and that as a result an exchange may determine to delist our securities.***

The Holding Foreign Companies Accountable Act, or the HFCAA Act, was enacted on December 18, 2020 and states that if the SEC determines a company has filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit such securities from being traded on a national securities exchange or in the over the counter trading market in the United States. In June 2021, the Senate passed the Accelerating Holding Foreign Companies Accountable Act, which, if signed into law, would reduce the time period for the delisting of foreign companies under the HFCAA to two consecutive years instead of three years. On December 16, 2021, SEC announced that the PCAOB designated China and Hong Kong as the jurisdictions where the PCAOB is not allowed to conduct full and complete audit inspections as mandated under the HFCAA.

Neither ZK International nor any of its subsidiaries has been identified and we do not expect ZK International or any of its subsidiaries to be identified by the Commission under the HFCAA. Our current auditor, ZH CPA, LLC, is a U.S.-based accounting firm that is registered with the PCAOB and can be inspected by the PCAOB. ZH CPA, LLC is not subject to the determinations announced by the PCAOB on December 16, 2021. In the event it is later determined that the PCAOB is unable to inspect or investigate completely the Company's auditor because of a position taken by an authority in a foreign jurisdiction, then such lack of inspection could cause trading in the Company's securities to be prohibited under the HFCAA ultimately result in a determination by a securities exchange to delist the Company's securities. In addition, under the HFCAA, our securities may be prohibited from trading on the Nasdaq or other U.S. stock exchanges if our auditor is not inspected by the PCAOB for three consecutive years, which could be reduced to two consecutive years if the Accelerating Holding Foreign Companies Accountable Act is signed into law. If we cannot engage a new auditor within a reasonable time under reasonable terms, our ordinary shares may be delisted, and the price of our ordinary shares may significantly decrease or become worthless. See "Item 3.D. Risk Factors — Risks Related to Our Ordinary Shares — Our ordinary shares may be delisted under the Holding Foreign Companies Accountable Act if the PCAOB is unable to inspect our auditors for three consecutive years beginning in 2021. The delisting of our ordinary shares, or the threat of their being delisted, may materially and adversely affect the value of your investment" on page 41.

***Risks related to our ability to follow certain home country corporate governance practices instead of otherwise applicable Nasdaq Capital Market requirements as a foreign private issuer, which may result in less protection than afforded to investors under rules applicable to domestic U.S. issuers.***

As a foreign private issuer, we are permitted to and did follow certain home country corporate governance practices instead of those otherwise required under the applicable rules of the Nasdaq Capital Market for domestic U.S. issuers, provided we disclose the requirements we are not following and describe the home country practices we are following. Following our home country governance practices as opposed to the requirements that would otherwise apply to a U.S. company listed on the Nasdaq Capital Market may provide less protection to you than what is accorded to investors under the applicable rules of the Nasdaq Capital Market applicable to domestic U.S. issuers. See "Item 3.D. Risk Factors — Risks Related to Our Ordinary Shares — As a foreign private issuer, we are permitted to, and did follow certain home country corporate governance practices instead of otherwise applicable Nasdaq Capital Market requirements, which may result in less protection than is accorded to investors under rules applicable to domestic U.S. issuers" on page 43.

***Risks related to shareholder inability to commence derivative actions, thereby depriving shareholders of the ability to protect their interests.***

British Virgin Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. Moreover, there is no statutory recognition in the British Virgin Islands of judgments obtained in the United States, although the courts of the British Virgin Islands will generally recognize and enforce the non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. This means that even if shareholders were to sue us successfully, they may not be able to recover anything to make up for the losses suffered. See “Item 3.D. Risk Factors — Risks Related to Our Ordinary Shares — British Virgin Islands companies may not be able to initiate shareholder derivative actions, thereby depriving shareholders of the ability to protect their interests” on page 45.

***Risks related to the market price of the Company’s ordinary shares may continue to be volatile.***

The trading price of our ordinary shares has been volatile and could continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control. Such a decline in the market price of our ordinary shares could adversely affect our ability to issue additional shares or other of our securities and our ability to obtain additional financing in the future. See “Item 3.D. Risk Factors — Risks Related to Our Ordinary Shares — The market price of the Company’s ordinary shares may continue to be volatile” on page 46.

**PRC Permissions and Approvals**

The PRC Subsidiaries are not operating in an industry that prohibits or limits foreign investment. In addition, other than those requisite for a domestic company in China to engage in the businesses similar to ours, the PRC Subsidiaries are not required to obtain any permissions or approvals from Chinese authorities, including the China Securities Regulatory Commission (CSRC), Cyberspace Administration of China (CAC) or any other governmental agency that is required to operate the business of the PRC subsidiaries and to offer our securities to foreign investors. However, if we do not receive or maintain the permissions and approvals, or we inadvertently conclude that such permissions and approvals are not required, or applicable laws, regulations, or interpretations change such that we are required to obtain permission and approval in the future, we may be subject to investigations by competent regulators, fines or penalties, ordered to suspend our relevant operations and rectify any non-compliance, prohibited from engaging in relevant business or conducting any offering, and these risks could result in a material adverse change in our operations, significantly limit or completely hinder our ability to offer or continue to offer securities to investors, or cause such securities to significantly decline in value or become worthless. See “Risk Factors – Risks Related to Doing Business in China – The Chinese government exerts substantial influence over the manner in which the PRC Subsidiaries must conduct business activities. We are currently not required to obtain approval from Chinese authorities to list on U.S exchanges, however, if our holding company or subsidiaries were required to obtain approval in the future and were denied permission from Chinese authorities to list on U.S. exchanges, we will not be able to continue listing on U.S. exchange, which may cause the value of our ordinary shares to significantly decline or be worthless” on page 33.

Our PRC subsidiaries have received from PRC authorities all requisite licenses, permissions or approvals needed to engage in the businesses currently conducted in China, and no permission or approval has been denied. The following table provides details on the licenses and permissions held by our PRC subsidiaries.

<b>Company</b>	<b>License/Permission/Approval</b>	<b>Issuing Authority</b>	<b>Validity</b>
Wenzhou Weijia	Business License	Wenzhou Municipal Administration for Market Regulation	Until June 16, 2035
Wenzhou Zhengfeng	Business License	Wenzhou Municipal Administration for Market Regulation	Long-term
Zhenjiang Zhengkang	Business License	Wenzhou Municipal Administration for Market Regulation	Long-term
Zhenjiang Zhengkang	the registration receipts of stationary pollution source discharge	Ministry of Ecology and Environment of the People’s Republic of China	Until March 14, 2025



## **Cash and Asset Transfers within the Corporate Structure**

ZK International is a holding company and conduct substantially all of our business through our PRC subsidiaries. ZK International may relies on dividends to be paid by its subsidiaries to fund its cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the shareholders, to service any debt ZK International may incur and to pay the operating expenses. If the subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Within our direct holding structure, the cross-border transfers of funds within our corporate entities are in compliance with the laws of the British Virgin Islands, the Republic of Uganda, Delaware, Hong Kong and the PRC. ZK International may transfer funds to its subsidiaries through capital contribution or loans without restrictions on the amount of the funds, subject to compliance with the relevant laws and regulations, and subject to satisfaction of applicable government registration, approval and filing requirements.

ZK International's BVI subsidiaries, xSigma Entertainment Limited, xSigma Collectible Limited and xSigma Corporation, may, according to the BVI Business Companies Act 2004 (as amended) but subject in each case to their respective memorandum and articles of association, make dividends and distribution to ZK International to the extent that immediately after the distribution, such company's assets do not exceed its liabilities and that such company is able to pay its debts as they fall due.

ZK International's Hong Kong subsidiary, ZK Pipe Industry Co., Ltd. may, according to the Companies Ordinance of Hong Kong, make a distribution out of profits available for distribution to ZK International.

ZK International's subsidiary established in the Republic of Uganda, ZK International Uganda Limited, may, according to the Companies Act of 2012, as amended, make a distribution out of profits to ZK International.

According to the Limited Liability Company Act of Delaware, ZK's indirect subsidiary established in Delaware, xSigma Trading LLC, may make a distribution to its parent company, xSigma Corporation to the extend, after giving effect to the distribution, all liabilities of xSigma Trading LLC, other than liabilities to xSigma Corporation on account of xSigma Corporation's membership interests in xSigma Trading LLC, if any, do not exceed the fair value of the assets of xSigma Trading LLC.

The PRC has currency and capital transfer regulations that require us to comply with certain requirements for the movement of capital. The Company is able to transfer cash (US Dollars), through its Hong Kong subsidiary, ZK Pipe Industry Co., Ltd., to its PRC subsidiaries through an investment (by increasing the Company's registered capital in a PRC subsidiary).

Increasing the registered capital in a PRC subsidiary requires the filing of the local commerce department, while a shareholder loan requires a filing with the State Administration of Foreign Exchange or its local bureau. Aside from the declaration to the State Administration of Foreign Exchange, there is no restriction or limitations on such cash transfer or earnings distribution.

With respect to the payment of dividends by a PRC subsidiary, we note the following:

1. PRC regulations currently permit the payment of dividends only out of accumulated profits, as determined in accordance with accounting standards and PRC regulations (an in-depth description of the PRC regulations is set forth below);
2. The PRC subsidiaries are required to set aside, at a minimum, 10% of their net income after taxes, based on PRC accounting standards, each year as statutory surplus reserves until the cumulative amount of such reserves reaches 50% of their registered capital;
3. Such reserves may not be distributed as cash dividends;
4. The PRC subsidiaries may also allocate a portion of their after-tax profits to fund their staff welfare and bonus funds; except in the event of a liquidation, these funds may also not be distributed to shareholders; the Company does not participate in a Common Welfare Fund; and
5. The incurrence of debt, specifically the instruments governing such debt, may restrict a subsidiary's ability to pay stockholder dividends or make other cash distributions.

The Company's subsidiaries within China can transfer funds to each other when necessary through the way of current lending. The transfer of funds among companies are subject to the Provisions on Private Lending Cases, which was implemented on August 20, 2020 to regulate the financing activities between natural persons, legal persons and unincorporated organizations. The Provisions on Private Lending Cases does not prohibit using cash generated from one subsidiary to fund another subsidiary's operations. We have not been notified of any other restriction which could limit our PRC subsidiaries' ability to transfer cash between subsidiaries.

If our PRC subsidiaries are unable to pay shareholder dividends and/or make other cash payments to the other companies within our corporate structure when needed, our ability to conduct operations, make investments, engage in acquisitions, or undertake other activities requiring working capital may be materially and adversely affected. However, the operations and business of the PRC subsidiaries, including investment and/or acquisitions by our subsidiaries within China, will not be affected as long as the capital is not transferred in or out of the PRC.

During the fiscal year ended September 30, 2019, 2020 and 2021 and until the date of this annual report, there has been no transfers, dividends, or distributions between ZK International, its subsidiaries, or to investors, except that during the fiscal year ended September 30, 2021, ZK International transferred a total of \$5,100,079 to Zhejiang Zhengkang Industrial Co. for business operation purposes.

ZK International's subsidiaries have not distributed any earnings to ZK International. ZK International has not distributed any earnings to its shareholders. ZK International and its subsidiaries do not have any plan to distribute earnings or settle amounts owed in the foreseeable future. For the foreseeable future, ZK International and the subsidiaries intend to use the earnings for business operations. As a result, we do not expect to pay any cash dividends in the foreseeable future. Also, as of the date of this annual report, no cash generated from one subsidiary is used to fund another subsidiary's operations and we do not anticipate any difficulties or limitations on our ability to transfer cash between subsidiaries. We have not installed any cash management policies that dictate the amount of such funding.

#### **A. Selected Financial Data**

The following table presents the selected consolidated financial information for our company. The selected consolidated statements of comprehensive income data for the fiscal years ended September 30, 2021, 2020, 2019, 2018, and 2017 and the selected consolidated balance sheets data as of September 30, 2021, 2020, 2019, 2018, and 2017 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and "Item 5. Operating and Financial Review and Prospects" below. Our audited consolidated financial statements are prepared and presented in accordance with US GAAP.

(All amounts in thousands of U.S. dollars, except Shares outstanding)

**Statement of operations data:**

	For the year ended September 30,				
	2021	2020	2019	2018	2017
Revenue	\$ 99,407,217	\$ 86,846,791	\$ 63,883,520	\$ 54,884,381	\$ 44,951,740
Cost of Revenue	\$ (92,936,029)	\$ (82,903,989)	\$ (48,239,478)	\$ (36,593,792)	\$ (31,843,337)
<b>Gross Profit</b>	\$ 6,471,188	\$ 3,942,802	\$ 15,644,042	\$ 18,290,589	\$ 13,108,403
General and administrative expenses	\$ 5,772,710	\$ 2,482,972	\$ 2,897,995	\$ 4,071,116	\$ 1,782,318
Research and development expenses	\$ 1,234,161	\$ 1,123,555	\$ 1,452,061	\$ 1,652,633	\$ 1,331,111
Selling and marketing costs	\$ 3,117,906	\$ 2,215,651	\$ 2,647,429	\$ 2,949,204	\$ 1,915,127
<b>income (loss) from operations</b>	\$ (3,653,589)	\$ (1,879,376)	\$ 8,646,557	\$ 9,617,636	\$ 8,079,847
Interest expense	\$ (1,196,648)	\$ (1,000,554)	\$ (1,151,045)	\$ (1,239,170)	\$ (1,245,385)
Interest income	\$ 13,733	\$ 7,192	\$ 24,437	\$ 10,702	\$ 24,459
Gain on disposal of subsidiary	—	536,612	—	—	—
Loss on investment	50,649	(256,937)	—	—	—
Other income, net	\$ 431,438	\$ 327,845	\$ 921,973	\$ 112,099	\$ 69,772
Income before income taxes	\$ (4,354,417)	\$ (2,265,218)	\$ 8,441,922	\$ 8,501,267	\$ 6,928,693
Income taxes	\$ 552,146	\$ 1,428,202	\$ (248,228)	\$ (1,398,210)	\$ (995,005)
<b>Net income</b>	\$ (3,802,271)	\$ (837,016)	\$ 8,193,694	\$ 5,933,688	\$ 5,933,688
Foreign currency translation (loss)	\$ 2,423,439	\$ 2,319,048	\$ (1,694,278)	\$ 272,237	\$ 272,237
<b>Comprehensive income</b>	\$ (1,378,832)	\$ 1,482,032	\$ 6,499,416	\$ 6,205,925	\$ 6,205,925

**Balance sheet data:**

	2021	2020	2019	2018	2017
Current assets	\$ 78,703,663	\$ 64,782,494	\$ 58,853,036	\$ 64,347,173	\$ 54,751,108
Total assets	\$ 133,662,301	\$ 86,450,504	\$ 78,402,367	\$ 76,398,563	\$ 61,173,069
Current liabilities	\$ 44,510,115	\$ 40,877,485	\$ 34,584,662	\$ 39,130,971	\$ 39,806,123
Total liabilities	\$ 44,537,949	\$ 41,146,775	\$ 34,584,662	\$ 39,130,971	\$ 39,806,123
Total shareholders' equity	\$ 89,124,352	\$ 45,303,729	\$ 43,817,705	\$ 37,267,592	\$ 21,366,946
Shares outstanding	28,918,177	16,558,037	16,558,037	16,528,037	13,068,346

**B. Capitalization and Indebtedness**

Not applicable for annual reports on Form 20-F.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable for annual reports on Form 20-F.

**D. Risk Factors**

**Risks Related to Our Business and Industry**

***Our business could be materially harmed by the ongoing coronavirus (COVID-19) pandemic.***

Since the end of 2019, there has been an ongoing spread of a novel strain of coronavirus (COVID-19) in China, which has spread rapidly to many parts of the world. In March 2020, the World Health Organization (“WHO”) declared the COVID-19 as a pandemic. Governments in affected countries are imposing travel bans, quarantines and other emergency public health measures, which have caused material disruption to businesses globally resulting in an economic slowdown. These measures, though temporary in nature, may continue and increase depending on developments in the COVID-19’s outbreak.

Zhejiang Province, where we conduct a substantial part of our business, was materially impacted by the COVID-19. We followed the recommendations of local health authorities to minimize exposure risk for our employees, including the temporary closure of our offices and suspension of marketing activities, and having employees work remotely. Our on-site work was not resumed until mid-March 2020 upon approval from the local government. Due to the extended lock-down and self-quarantine policies in China, we experienced significant business disruption during the lock-down period from February to mid-March. The production of the Company's suppliers and logistics services were suspended since early February and did not resume until February 25, 2020 and was picking up slowly after China reopened businesses nationwide.

The extent to which the COVID-19 outbreak impacts our financial condition and results of operations for the full year of 2021 cannot be reasonably estimated at this time and will depend on future developments that currently cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 outbreak and the actions to contain the COVID-19 outbreak or treat its impact, the government steps to combat the virus, the disruption to the general business activities of the PRC and the impact on the economic growth and business of our manufacturers and distributors for the foreseeable future, among others.

***We may incur liability for unpaid taxes, including interest and penalties.***

In the normal course of its business, ZK International and its subsidiaries, including in particular Zhejiang Zhengkang and Wenzhou Zhengfeng, may be subject to challenges from various PRC taxing authorities regarding the amounts of taxes due. Although Zhejiang Zhengkang is currently entitled to a preferential income tax rate of 15% as we have been certified as a high-tech enterprise by the local agency and our management believe that we have paid all taxes to date, PRC taxing authorities may take the position that we owe more taxes than we have paid based on transactions conducted by ZK International or ZK Pipe, which may be deemed a resident enterprise, thereby resulting in taxable liability for Zhejiang Zhengkang. (See "Item 3. Key Information – D. Risk Factors - Risks Related to Doing Business in China – Under the Enterprise Income Tax Law, we may be classified as a 'Resident Enterprise' of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC stockholders.").

We recorded an income tax liability of \$2,354,832, \$3,188,615 and \$4,176,537 for the fiscal years ended September 30, 2021, 2020 and 2019, respectively. It is possible that the tax liability of the Company for past taxes may be higher than those amounts. We believe that we have sufficient cash on hand to adequately meet any tax liability for the underpayment of income and business taxes. Additionally, we believe that we may be able to negotiate with local PRC taxing authorities a reduction to any amounts that such authorities may believe are due and a reduction to any interest or penalties thereon. We have no guarantee that we will be able to negotiate such a reduction. To the extent we can negotiate such amounts, national-level taxing authorities may take the position that localities are without power to reduce such liabilities, and such PRC taxing authorities may attempt to collect unpaid taxes, interest and penalties in amounts greatly exceeding management's estimates.

***Our industry is very competitive in China.***

The domestic market for pipe and fitting products is fragmented and highly competitive. We estimate that there are a few relatively large companies with which we compete against and more than one hundred smaller companies with regional presences. We also face competition from products imported to China or produced by manufacturers that are already globally recognized. The number of these companies varies from time to time. Some of our pipe and fitting products compete on the basis of price and are sold in fragmented markets with low barriers to entry, allowing less expensive domestic producers to gain market share and reduce our margins. To the extent these competitors are able to grow and consolidate, they may be able to take advantage of economies of scale, which could put further pressure on our margins.

***A weakening of the Chinese economy (and in particular in real estate or hospitality sectors) could hurt demand for our products.***

Through distributors and wholesalers, most of our products are sold domestically to end users in the real estate or hospitality industries, including those in local municipalities, hotels or residential complexes. As such, we have relied on consumer spending to drive sales in our products. Over the last five years, there are signs that China's GDP growth rate has slowed. If China's economy continues to slow, or if customer spending for decreases, demand for our products may be negatively impacted, which would adversely affect sales of our products to infrastructural, real estate or hotel developers and results of our operations.

***We might require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.***

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features or enhance our existing solutions, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing shareholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our ordinary shares. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired.

***Our revenue will decrease if the industries in which our customers operate experience a protracted slowdown.***

Our products mainly serve as key components in projects and machines operated by our customers which are mostly in the construction industry. Therefore, we are subject to the general changes in economic conditions affecting those industry segments of the economy. If the industry segments in which our customers operate do not grow or if there is a contraction in those industries, demand for our products will decrease. Demand for our products is typically affected by a number of overarching economic factors, including, but not limited to, interest rates, the availability and magnitude of private and governmental investment in infrastructure projects and the health of the overall global economy. If there is a decline in economic activity in China and the other markets in which we operate or a protracted slowdown in industries on which we rely for our sales, demand for our products and our revenue will likewise decrease.

***Any decline in the availability or increase in the cost of raw materials could materially affect our earnings.***

Our pipe and fitting manufacturing operations depend heavily on the availability of various raw materials and energy resources. The availability of raw materials and energy resources may decline and their prices may fluctuate greatly. If our suppliers are unable or unwilling to provide us with raw materials on terms favorable to us, we may be unable to produce certain products. This could result in a decrease in profit and damage to our reputation in our industry. In the event our raw material and energy costs increase, we may not be able to pass these higher costs on to our customers in full or at all. Any increase in the prices for raw materials or energy resources could materially increase our costs and therefore lower our earnings.

***Outstanding bank loans may reduce our available funds.***

We have \$17,372,894 in outstanding bank loans as of September 30, 2020. While the management believes that we will have sufficient cash to repay these loans, there can be no guarantee that we will be able to pay all amounts when due or refinance the amounts on terms that are acceptable to us or at all. If we are unable to make our payments when due or to refinance such amounts, our property could be foreclosed and our business could be negatively affected.

***Weak liquidity may have material adverse effect on our results of operations.***

While our operating activities provided \$460,205 and \$8,464,493 in net cash during the fiscal years ended September 30, 2020 and 2019, respectively, our operating activities used \$3,479,064 in net cash during the fiscal year ended September 30, 2021. We cannot assure you that our operating activities will be able to provide net cash in the future. In addition, some of our accounts receivable have carried balance for more than 3 years. While we are actively collecting the remaining balance of these accounts receivable, we cannot assure you that we will be able to do so. If we continue experiencing an increase in accounts receivable without substantial collection of them, the weak liquidity could have a material adverse effect on our financial performance.”

***The loss of any of our key vendors could have a materially adverse effect on our results of operations.***

We consider our major vendors in each period to be those vendors that accounted for more than 10% of overall purchases in such period. We had three major vendors during the fiscal year ended September 30, 2021, who collectively accounted for 72.52% of total purchases. We had four major vendors during the fiscal year ended September 30, 2020, who collectively accounted for 70.10% of total purchase. We had two major vendors during the fiscal years ended September 30, 2019, who collectively accounted for 75.78% of total purchase. We purchase raw materials on the market at prevailing market prices. We believe that we can locate replacement vendors readily on the market for prevailing prices and that we would not have significant difficulty replacing a given vendor, any difficulty in replacing such a vendor could adversely affect our company’s performance to the extent it results in higher prices, slower supply chain and ultimately less desirable results of operations.

***Any disruption in the supply chain of raw materials and our products could adversely impact our ability to produce and deliver products.***

As to the products we manufacture, we must manage our supply chain for raw materials and delivery of our products. Supply chain fragmentation and local protectionism within China further complicates supply chain disruption risks. Local administrative bodies and physical infrastructure built to protect local interests pose transportation challenges for raw material transportation as well as product delivery. In addition, profitability and volume could be negatively impacted by limitations inherent within the supply chain, including competitive, governmental, legal, natural disasters, and other events that could impact both supply and price. Any of these occurrences could cause significant disruptions to our supply chain, manufacturing capability and distribution system that could adversely impact our ability to produce and deliver products.

***Our patent rights are limited in China.***

We rely on many patented products to establish our market share for stainless pipe products. Our patent rights are granted by the State Intellectual Property Office of the PRC. While we have sold our products outside of the PRC and plan to continue expanding the export of our products overseas, we have not been granted any patent in countries outside of the PRC. As of the date hereof, most of our products are sold within the PRC. However, in the event that we begin to generate substantial revenue from sales abroad and if we cannot successfully protect our intellectual properties outside of the PRC, we may not be able to execute our business plan, which could have a material adverse effect on our financial performance.

***Rapid expansion could significantly strain our resources, management and operational infrastructure, which could impair our ability to meet increased demand for our products and hurt our business results.***

To accommodate our anticipated growth, we will need to expend capital resources and dedicate personnel to implement and upgrade our accounting, operational and internal management systems and enhance our record keeping and contract tracking system. Such measures will require us to dedicate additional financial resources and personnel to optimize our operational infrastructure and to recruit more personnel to train and manage our growing employee base. If we cannot successfully implement these measures efficiently and cost-effectively, we will be unable to satisfy the demand for our products, which will impair our revenue growth and hurt our overall financial performance.

***We must manage growth in operations to maximize our potential growth and achieve our expected revenues and any failure to manage growth will cause a disruption of the operations of the PRC subsidiaries and impair our ability to generate revenue.***

In order to maximize potential growth in our current and potential markets, we believe that we must expand the scope of our pipe and fitting manufacturing and production facilities and capabilities and continue to develop new and improved valves. This expansion will place a significant strain on our management and our operational, accounting, and information systems. We expect that we will need to continue to improve our financial controls, operating procedures and management information systems. We will also need to effectively train, motivate and manage our employees. Our failure to manage our growth could disrupt the operations of the PRC subsidiaries and ultimately prevent us from generating the revenues we expect.

***We cannot assure you that our internal growth strategy will be successful, which may result in a negative impact on our growth, financial condition, results of operations and cash flow.***

One of our strategies is to grow internally through increasing the development of new products and improve the quality of existing products. However, many obstacles to this expansion exist, including, but not limited to, increased competition from similar businesses, our ability to improve our products and product mix to realize the benefits of our research and development efforts, international trade and tariff barriers, unexpected costs, costs associated with marketing efforts abroad and maintaining attractive foreign exchange rates. We cannot, therefore, assure you that we will be able to successfully overcome such obstacles and establish our services in any additional markets. Our inability to implement this internal growth strategy successfully may have a negative impact on our growth, future financial condition, results of operations or cash flows.

***We cannot assure you that our acquisition growth strategy will be successful, resulting in our failure to meet growth and revenue expectations.***

In addition to our internal growth strategy, we plan to explore the possibility of growing through strategic acquisitions. We may pursue opportunities to acquire businesses in the PRC that are complementary or related in products and business structure to us. We do not presently have any commitments, agreements or understandings to acquire any businesses or assets of such businesses. We may not be able to locate suitable acquisition candidates at prices that we consider appropriate or to finance acquisitions on terms that are satisfactory to us. If we do identify an appropriate acquisition candidate, we may not be able to negotiate successfully the terms of an acquisition, or, if the acquisition occurs, integrate the acquired business into our existing business. Acquisitions of businesses or other material operations may require debt financing or additional equity financing, resulting in leverage or dilution of ownership. Integration of acquired business operations could disrupt our business by diverting management away from day-to-day operations. The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures.

We also may not be able to retain key employees or customers of an acquired business or realize cost efficiencies or synergies or other benefits we anticipated when selecting our acquisition candidates. In addition, we may need to record write-downs from future impairments of intangible assets, which could reduce our future reported earnings. At times, acquisition candidates may have liabilities or adverse operating issues that we fail to discover through due diligence prior to the acquisition. In addition to the above, acquisitions in the PRC, including state owned businesses, will be required to comply with the laws of the PRC, to the extent applicable. There can be no assurance that any given proposed acquisition will be able to comply with PRC requirements, rules and/or regulations, or that we will successfully obtain governmental approvals that are necessary to consummate such acquisitions, to the extent required. If our acquisition strategy is unsuccessful, we will not grow operations and revenues at the rate that we anticipate.

***Failure to manage our growth could strain our management, operational and other resources, which could materially and adversely affect our business and prospects.***

Our growth strategy includes building our brand, increasing market penetration of our existing products, developing new products, increasing our targeting of the pharmaceutical market in China, and increasing our exports. Pursuing these strategies has resulted in and will continue to result in substantial demands on management resources. In particular, the management of our growth will require, among other things:

- continued enhancement of our research and development capabilities;
- information technology system enhancement;
- stringent cost controls and sufficient liquidity;
- strengthening of financial and management controls and information technology systems; and
- increased marketing, sales and support activities; and hiring and training of new personnel.

If we are not able to manage our growth successfully, our business and prospects would be materially and adversely affected.

***Our bank accounts in China are not insured or protected against loss.***

We maintain our cash with various banks and trust companies located in the PRC and the United States. Our cash accounts in China are not insured or otherwise protected. While China is currently considering implementation of banking insurance policies, it has not yet done so. Should any bank or trust company holding our cash deposits become insolvent, or if we are otherwise unable to withdraw funds, we would lose the cash on deposit with that particular bank or trust company.

***We are substantially dependent upon our senior management and key research and development personnel.***

We are highly dependent on our senior management to manage our business and operations and our key research and development personnel for the development of new products and the enhancement of our existing products and technologies. In particular, we rely substantially on our Chief Executive Officer and Chairman of the Board Jiancong Huang, to manage the operations of the PRC subsidiaries.

While we provide the legally required personal insurance for the benefit of our employees, we do not maintain key man life insurance on any of our senior management or key personnel including our Chief Executive Officer and Chairman of the Board, Mr. Jiancong Huang. The loss of any one of them would have a material adverse effect on our business and operations. Competition for senior management and our other key personnel is intense and the pool of suitable candidates is limited. We may be unable to locate a suitable replacement for any senior management or key personnel that we lose. In addition, if any member of our senior management or key personnel joins a competitor or forms a competing company, they may compete with us for customers, business partners and other key professionals and staff members of our company. Although each of our senior management and key personnel has signed a confidentiality and non-competition agreement in connection with his employment with us, we cannot assure you that we will be able to successfully enforce these provisions in the event of a dispute between us and any member of our senior management or key personnel.

We compete for qualified personnel with other hardware manufacturing companies and related technology research institutions. Intense competition for these personnel could cause our compensation costs to increase, which could have a material adverse effect on our results of operations. Our future success and ability to grow our business will depend in part on the continued service of these individuals and our ability to identify, hire and retain additional qualified personnel. If we are unable to attract and retain qualified employees, we may not be able to meet our business and financial goals.

***We are heavily dependent upon the services of experienced personnel who possess skills that are valuable in our industry, and we may have to actively compete for their services.***

We are heavily dependent upon our ability to attract, retain and motivate skilled personnel to serve our customers. Many of our personnel possess skills that would be valuable to all companies engaged in our industry. Consequently, we expect that we will have to actively compete for these employees. Some of our competitors may be able to pay our employees more than we are able to pay to retain them. Our ability to profitably operate is substantially dependent upon our ability to locate, hire, train and retain our personnel. There can be no assurance that we will be able to retain our current personnel, or that we will be able to attract and assimilate other personnel in the future. If we are unable to effectively obtain and maintain skilled personnel, the development and quality of our services could be materially impaired.

***If we fail to protect our intellectual property rights, it could harm our business and competitive position.***

We rely on a combination of patent, copyright, trademark and trade secret laws and non-disclosure agreements and other methods to protect our intellectual property rights. We own various patents in China covering our pipe and fitting production technology.

The process of seeking patent protection can be lengthy and expensive, our patent applications may fail to result in patents being issued, and our existing and future patents may be insufficient to provide us with meaningful protection or commercial advantage. Our patents and patent applications may also be challenged, invalidated or circumvented.

We also rely on trade secret rights to protect our business through non-disclosure provisions in employment agreements with employees. If our employees breach their non-disclosure obligations, we may not have adequate remedies in China, and our trade secrets may become known to our competitors.

Implementation of PRC intellectual property-related laws has historically been lacking, primarily because of ambiguities in the PRC laws and enforcement difficulties. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other western countries. Furthermore, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to resort to litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation, if any, could result in substantial costs and diversion of resources and management attention, which could harm our business and competitive position.



***We may be exposed to intellectual property infringement and other claims by third parties which, if successful, could disrupt our business and have a material adverse effect on our financial condition and results of operations.***

Our success depends, in large part, on our ability to use and develop our technology and know-how without infringing third party intellectual property rights. If we sell our branded products internationally, and as litigation becomes more common in China, we face a higher risk of being the subject of claims for intellectual property infringement, invalidity or indemnification relating to other parties' proprietary rights. Our current or potential competitors, many of which have substantial resources and have made substantial investments in competing technologies, may have or may obtain patents that will prevent, limit or interfere with our ability to make, use or sell our branded products in either China or other countries, including the United States and other countries in Asia. In addition, the defense of intellectual property suits, including patent infringement suits, and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. Furthermore, an adverse determination in any such litigation or proceedings to which we may become a party could cause us to:

- pay damage awards;
- seek licenses from third parties;
- pay ongoing royalties;
- redesign our branded products; or
- be restricted by injunctions,

each of which could effectively prevent us from pursuing some or all of our business and result in our customers or potential customers deferring or limiting their purchase or use of our branded products, which could have a material adverse effect on our financial condition and results of operations.

***We are susceptible to general economic conditions, natural catastrophic events and public health crises, market downturns and changes in supply chains and sales demand could adversely affect our operating results.***

Our operating results will be subject to fluctuations based on general economic conditions, in particular those conditions that impact graphite products industry. Deterioration in economic conditions could cause decreases in both retail and wholesale trade volume and reduce and/or negatively impact our short-term ability to grow our revenues. Further, any decreased collectability of accounts receivable or early termination of agreements due to deterioration in economic conditions could negatively impact our results of operations.

Furthermore, our business is subject to the impact of natural catastrophic events such as earthquakes, floods or power outages, political crises such as terrorism or war, and public health crises, such as disease outbreaks, epidemics, or pandemics in the U.S. and global economies, our markets and business locations. Currently, the rapid spread of coronavirus (COVID-19) globally has resulted in increased travel restrictions and disruption and shutdown of businesses. We may experience impacts from quarantines, market downturns and changes in customer behavior related to pandemic fears and impacts on our workforce if the virus becomes widespread in any of our markets. If the virus were to affect a significant number of our workforce employed in our business-to-business and business-to-customer sales operation, we may experience delays or the inability to deliver our products to customers on a timely basis. In addition, our manufacture process relies on raw materials and components provided by our suppliers. If the ongoing quarantining measures cause delays along our supply chain, we will likely experience manufacture slow-down for the indefinite future. Our customers include mainly domestic customers and we generally do not enter into long-term contracts with our customers; one or more of our customers, distribution partners, service providers or suppliers may experience financial distress, file for bankruptcy protection, go out of business, or suffer disruptions in their business due to the coronavirus outbreak; as a result, our operation revenues may be impacted. The extent to which the coronavirus impacts our results will depend on future developments, which are highly uncertain and will include emerging information concerning the severity of the coronavirus and the actions taken by governments and private businesses to attempt to contain the coronavirus, but is likely to result in a material adverse impact on our business, results of operations and financial condition at least for the near term.

***An insufficient amount of insurance could expose us to significant costs and business disruption.***

While we have purchased insurance to cover our certain assets and property of our business, the amounts and scope of coverage could leave our business inadequately protected from loss. If we were to incur substantial losses or liabilities due to fire, explosions, floods, other natural disasters or accidents or business interruption, our results of operations could be materially and adversely affected.

### **Risks Related to Investment in CG Malta Holding Limited**

***We are subject to the risk of becoming an investment company under U.S. federal securities law, which may require us to fundamentally restructure our business or potentially to cease operations.***

The Investment Company Act states that a company is an investment company if (i) it holds itself out to be an investment company or (ii) it is in the business of investing, reinvesting, owning, holding, or trading in securities, and owns or proposes to own investment securities having a value exceeding 40% of the value of the company's total assets on an unconsolidated basis, excluding U.S. Government securities and certain cash items (the "40% Test"). We believe that we will not be considered an investment company because we will not engage primarily or hold ourselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, we will be primarily engaged in the non-investment company businesses of the design and manufacture of steel pipes. We will monitor our holdings in equity securities of non-majority owned affiliates to ensure continuing and ongoing compliance with this test.

Although we intend and expect that we will be engaged primarily and predominantly in the steel pipe design and manufacturing business, and we intend to conduct our business on an ongoing basis, our subsidiary, xSigma Entertainment, has invested a total of \$25 million in CG Malta Holding Limited as of the date of this annual report and has committed to invest an additional \$15 million in CG Malta Holding Limited. The total investment in the amount of \$50 million, if made in full, will guarantee xSigma Entertainment a total of 25% equity interest in CG Malta Holding Limited. For more details of the transaction, see "Item 4. Information of the Company – Recent Development – Investment in CG Malta Holding Limited."

There can be no assurance that the laws and regulations governing the Investment Company Act, including the Division of Investment Management of the SEC providing more specific or different guidance regarding these exceptions will not change in a manner that adversely affects the operations of the PRC subsidiaries. Any additional guidance from the SEC or its staff from this process or in other circumstances could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies we have chosen. If we or our subsidiaries fail to maintain an exception from the Investment Company Act, we could, among other things, be required either to (1) change the manner in which the PRC subsidiaries conduct the operations to avoid being required to register as an investment company, (2) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so or (3) register as an investment company, which could have an adverse effect on our business.

If an exemption were not available, we might be required to register as an investment company. Accordingly, to the extent we are deemed to be an investment company under the Investment Company Act, we may rely upon Rule 3a-2 of the Investment Company Act, which applies to "transient investment companies." Rule 3a-2 permits a company that fails the 40% Test to remain exempt from the Investment Company Act for a period of up to one-year commencing upon the earlier of the date on which a company owns or proposes to own securities and/or cash having a value exceeding 50% of the value of the company's total assets, on either a consolidated or unconsolidated basis, or the date on which the company owns or proposes to acquire investment securities in an amount that would fail the 40% Test. A company may only rely upon such Rule once in any three-year period. We have complied with the requirements of Rule 3a-2.

If, as a result of our operations, we are deemed to be an "investment company," and cannot otherwise qualify for an exception or exemption from such definition, we would be required to register under the Investment Company Act as an investment company, fundamentally restructure our business or cease operations. As we are organized outside of the United States, we could not register as an investment company without first applying for and obtaining an order of the SEC permitting us to do so. These orders have been granted very infrequently. Registered investment companies are subject to extensive and restrictive regulation that can adversely affect businesses like ours. Accordingly, if we were to register as an investment company after obtaining an order permitting us to do so, we would not be able to operate our business as we currently intend to conduct it. If we were to decide to not register under the Investment Company Act or if we were unable to register under the Investment Company Act, we would have to fundamentally restructure our business or cease operations. If we were found in violation of the Investment Company Act, we could become subject to monetary penalties or injunctive relief, or both.

***We could be deemed as a "Passive Foreign Investment Company" in the future.***

A non-U.S. corporation will be treated as a "Passive Foreign Investment Company" ("PFIC") for U.S. Federal Income Tax purpose if at least 75% its gross income is "passive income" or on average at least 50% of the value of its assets is attributable to assets that produce passive income. It is likely that xSigma Entertainment's investment in CG Malta Holding Limited would be deemed passive. If xSigma Entertainment completes the full investment in CG Malta Holding Limited, there is a risk that the Company will become an investment company, a PFIC or both. The consequence of any of those scenarios, or even the perception that such scenarios could occur, could be a significant drop in the market price of our ordinary shares, possible civil litigation and regulatory enforcement.

***The online gaming and interactive entertainment industry is a new and evolving industry, presenting significant uncertainty and business risks for CG Malta Holding Limited.***

The online gaming and interactive entertainment industry is relatively new and continuing to evolve. Whether these industries grow and whether our online business will ultimately succeed, will be affected by, among other things, developments in gaming platforms, legal and regulatory developments (such as the passage of new laws or regulations or the extension of existing laws or regulations to online gaming activities), taxation of gaming activities, data privacy laws and regulation and other factors that we are unable to predict and which are beyond our control. Given the dynamic evolution of these industries, it can be difficult to for CG Malta Holding Limited to plan strategically, and it is possible that competitors will be more successful than us at adapting to the changing landscape and pursuing business opportunities. Additionally, as the online gaming industry advances, including with respect to regulation, CG Malta Holding Limited may become subject to additional compliance-related costs, which may adversely affect the return on our investment in CG Malta Holding Limited.

**Risks Related to the Stablecoin Exchange Platform**

***Our total revenue will be dependent on volume of transactions conducted on the stablecoin exchange platform. If xSigma Corporation does not manage to grow such volume, our business, operating results, and financial condition would be adversely affected.***

xSigma Corporation plans to generate commission revenue from the stablecoin in connection with the exchange by users through the stablecoin exchange platform launched by xSigma Corporation in February 2021. Commission revenue will be based on transaction fees that are either a flat fee or a percentage of the value of each transaction. For the fiscal year ended September 30, 2021, although SIG is listed on Bittrex Global and has a public market price, due to SIG's low trading volume and unstable market price, the Company decides not to recognize revenue for the token it owned until monetization of the token. As such, if xSigma Corporation does not manage to grow the transaction volume, our business, operating results and financial conditions would be adversely affected.

The demand for buying, selling, and trading of digital assets have historically been subject to significant volatility. The trading volume of any digital asset is subject to significant uncertainty and volatility, depending on a number of factors, including:

- market conditions across the cryptoeconomy;
- changes in liquidity, market-making volume, and trading activities;
- trading activities on other digital platforms worldwide, many of which may be unregulated, and may include manipulative activities;
- investment and trading activities of highly active retail and institutional users, speculators, miners, and investors;
- the speed and rate at which digital is able to gain adoption as a medium of exchange, utility, store of value, consumptive asset, security instrument, or other financial assets worldwide, if at all;
- decreased user and investor confidence in digital assets and digital platforms;
- negative publicity and events relating to the cryptoeconomy;
- unpredictable social media coverage or “trending” of digital assets;
- the ability for digital assets to meet user and investor demands;
- the functionality and utility of digital assets and their associated ecosystems and networks, including digital assets designed for use in various applications;
- consumer preferences and perceived value of digital assets and digital asset markets;
- increased competition from other payment services or other digital assets that exhibit better speed, security, scalability, or other characteristics;
- regulatory or legislative changes and updates affecting the cryptoeconomy;

- the characterization of digital assets under the laws of various jurisdictions around the world;
- the maintenance, troubleshooting, and development of the blockchain networks underlying digital assets, including by miners, validators, and developers worldwide;
- the ability for digital networks to attract and retain miners or validators to secure and confirm transactions accurately and efficiently;
- ongoing technological viability and security of digital assets and their associated smart contracts, applications and networks, including vulnerabilities against hacks and scalability;
- fees and speed associated with processing digital asset transactions, including on the underlying blockchain networks and on digital platforms;
- financial strength of market participants;
- the availability and cost of funding and capital;
- the liquidity of digital platforms;
- interruptions in service from or failures of major digital platforms;
- availability of an active derivatives market for various digital assets;
- availability of banking and payment services to support crypto-related projects;
- level of interest rates and inflation;
- monetary policies of governments, trade restrictions, and fiat currency devaluations; and
- national and international economic and political conditions.

There is no assurance that any supported digital asset will maintain its value or that there will be meaningful levels of trading activities. In the event that xSigma Corporation does not manage to grow the transaction volume, our business, operating results and financial conditions would be adversely affected.

***Cryptocurrency, including stablecoin, is not legal tender, is not backed by the U.S. government or most other governments, and customer balances are not covered by FDIC or SIPC protections. The value of a cryptocurrency may be derived in large part from the continued willingness of market participants to exchange legal tender for cryptocurrency, or a particular cryptocurrency for another, which, if such willingness diminishes or disappears, may result in permanent and total loss of value for that particular cryptocurrency.***

A stablecoin is a class of cryptocurrencies that attempt to offer price stability and are backed by an underlying asset, often a fiat currency like the U.S. dollar. The stablecoins available for exchange on our exchange platform are DAI, USDC and USDT. Although they are considered fiat-backed stablecoins. They are not legal tender, are not backed by the U.S. government or most other governments and customer balances are not covered by FDIC or SIPC protections. Federal, state and foreign governments may restrict the use and exchange of cryptocurrency, including the stablecoins, and regulation in the U.S. and in other countries is still developing. For example, in September 2021, China declared all financial transactions involving cryptocurrencies illegal and issued a nationwide ban on cryptocurrency mining. Additionally, the value of cryptocurrencies is based in large part on market adoption and the continued willingness of market participants to exchange legal tender for cryptocurrency, or a particular cryptocurrency for another, which, if such willingness diminishes or disappears, may result in permanent and total loss of value for that particular cryptocurrency. Cryptocurrencies have only recently become selectively accepted as a means of payment by retail and commercial outlets and use of cryptocurrencies by consumers to pay such retail and commercial outlets remains limited. Banks and other established financial institutions may refuse to process funds for cryptocurrency transaction, process wire transfers to or from cryptocurrency exchanges, cryptocurrency-related companies or service providers, or maintain accounts for persons or entities transacting in cryptocurrency. Any of these actions, events or decisions could limit xSigma Corporation's ability to operate the stablecoin exchange platform, reduce liquidity in the market and damage the public perception of cryptocurrencies generally, or any one cryptocurrency in particular, and their utility as a payment system, which could decrease the price of cryptocurrencies generally or individually. While xSigma Corporation has observed a

continuing positive trend in the total market capitalization of cryptocurrency assets, driven by increased adoption of cryptocurrency trading by both retail and institutional investors and corporations as well as continued growth of various non-investing use cases, historical trends are not indicative of future adoption, and it is possible that the adoption of cryptocurrencies may slow, take longer to develop or never be broadly adopted, which would negatively impact xSigma Corporation's business, financial condition and results of operations.

Furthermore, unlike securities or other traditional asset exchanges and financial services providers, cryptocurrency platforms are relatively new and, in some cases, unregulated or insufficiently regulated. Because of this, users may be less familiar with cryptocurrency platforms or may not fully understand the risks associated with them. Additionally, while many prominent cryptocurrency platforms provide the public with significant information regarding their ownership structure, management teams, corporate practices and regulatory compliance, many cryptocurrency platforms do not provide this information, which could result in users making uninformed investment decisions. As a result, the marketplace may lose confidence in cryptocurrency platforms. Further, any security weaknesses identified with a cryptocurrency, any actual or perceived improper trading in trading platforms, any other fraudulent or manipulative acts and practices, any unrecoverable loss of customer assets, and any associated negative publicity, could adversely affect the value of cryptocurrencies and negatively affect the market perception of such cryptocurrencies and, by extension, cryptocurrency markets and platforms, including xSigma Corporation's stablecoin exchange platform.

***Regulation of the cryptocurrency industry is incipient, fragmented and complex and will likely change substantially. xSigma Corporation's interpretations of any cryptocurrency regulation may be subject to challenge by the relevant regulators and xSigma Corporation's failure to comply with such regulation may negatively impact its ability to allow customers to buy, hold and sell cryptocurrencies with it in the future and may materially adversely affect its business, financial condition and results of operations.***

xSigma Corporation's stablecoin exchange platform currently provides customers with the ability to exchange a limited number of DAI, USDC and USDT. While both domestic and foreign regulators and governments are increasingly focused on the regulation of cryptocurrencies, there is currently no uniformly applicable legal or regulatory regime governing cryptocurrencies in the United States. Rather, xSigma Corporation's business is subject to extensive laws, rules, regulations, policies, orders, determinations, directives, treaties, and legal and regulatory interpretations and guidance in the markets in which it operates, including those governing financial services and banking, trust companies, securities, broker-dealers and alternative trading systems, commodities, money transmitters and money services businesses, credit, crypto asset custody, cross-border and domestic money and crypto asset transmission, consumer and commercial lending, usury, foreign currency exchange, privacy, data governance, data protection, cybersecurity, fraud detection, payment services (including payment processing and settlement services), consumer protection, escheatment, antitrust and competition, bankruptcy, tax, anti-bribery, economic and trade sanctions, anti-money laundering, and counter-terrorist financing. Cryptocurrencies are regulated by both federal and state authorities in the United States depending on their nature and the context of their usage, and regulation of cryptocurrencies continues to evolve. Recent initiatives by U.S. lawmakers and regulators have increasingly focused on cryptocurrencies and their impact on the economy, retail investors and securities markets, and lawmakers have urged the SEC and the CFTC to implement a comprehensive regulatory regime for cryptocurrencies. Various states within the U.S. have recently proposed, or are in the process of implementing, additional or enhanced licensing and other regulatory obligations on entities, such as xSigma Corporation's stablecoin exchange platform, that provide cryptocurrency exchanging capabilities to retail investors. Cryptocurrency market disruptions and resulting governmental interventions are unpredictable, and may make cryptocurrencies, or certain cryptocurrency business activities, unprofitable or illegal altogether. There is a substantial risk of inconsistent regulatory guidance among federal and state agencies and state governments which, along with potential accounting and tax issues or other requirements relating to cryptocurrencies, could impede xSigma Corporation's growth and operations.

Additionally, the significant uncertainty surrounding the regulation of cryptocurrencies requires xSigma Corporation to exercise its judgment as to whether certain laws, rules and regulations apply to it and, if so, how, and it is possible that governmental bodies and regulators may disagree with xSigma Corporation's conclusions. To the extent xSigma Corporation has not complied with such laws, rules and regulations or regulators' interpretation thereof, it could be subject to significant fines, revocation of licenses, limitations on its products and services, reputational harm and other regulatory consequences, each of which may be significant and could materially adversely affect xSigma Corporation's business, financial condition and results of operations. In addition to existing laws and regulations, various governmental and regulatory bodies, including legislative and executive bodies, in the United States and in other countries may adopt new laws and regulations, or new interpretations of existing laws and regulations may be issued by such bodies or the judiciary. Any such new laws, regulations or interpretations may materially adversely impact the development of the cryptoeconomy as a whole and xSigma Corporation's legal and regulatory status in particular by changing how it operates its business, how its products and services are regulated, and what products or services xSigma Corporation and its competitors can offer, requiring changes to xSigma Corporation's compliance and risk mitigation measures, imposing new licensing requirements, or imposing a total ban on certain crypto asset transactions, as has occurred in certain jurisdictions in the past. Any one of these events could have a material adverse effect on xSigma Corporation's business, financial condition, results of operations or prospects.

***A particular cryptocurrency's status as a "security" in any jurisdiction is subject to a high degree of uncertainty and if xSigma Corporation is unable to properly characterize a cryptocurrency it may be subject to federal or state regulatory scrutiny, investigations, fines and other penalties, which may adversely affect xSigma Corporation's business, financial condition and results of operations.***

The SEC and its staff have taken the position that certain cryptocurrencies fall within the definition of a "security" under the U.S. federal securities laws but that the application of the securities laws to cryptocurrencies may not be warranted in every instance. The legal test for determining whether any given cryptocurrency is a security is a highly complex, fact-driven analysis that has and will continue to evolve over time, and the outcome is difficult to predict. The SEC generally does not provide advance guidance or confirmation on the status of any particular cryptocurrency as a security, and it is difficult to predict the direction or timing of any continuing evolution of the SEC's views in this area. It is also possible that a change in the governing administration or the appointment of new SEC commissioners could substantially impact the views of the SEC and its staff. The Report on Stablecoins published on November 1, 2021 by the President's Working Group on Financial Markets (PWG), along with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, "stablecoins, or certain parts of stablecoin arrangements, may be securities, commodities and/or derivatives." The SEC's statement published on the same day by Chair Gary Gensler states that "the use of stablecoins presents a number of public policy challenges with respect to protecting investors" and that the SEC and the CFTC "will deploy the full protections of the federal securities laws and the Commodity Exchange Act to these products and arrangements, where applicable." In addition to the SEC and its staff taking the position that certain cryptocurrencies meet the definition of a "security" under the federal securities laws, the CFTC and its staff have generally taken the position that cryptocurrencies, at least to the extent they are not a security, meet the definition of a "commodity" under the Commodity Exchange Act. The CFTC has enforcement authority to impose fines and other remedies for manipulative or fraudulent activity in the commodities markets generally.

The classification of a cryptocurrency as a security under applicable law has wide-ranging implications for the regulatory obligations that flow from the offer, sale, trading and clearing of such assets. For example, a cryptocurrency that is a security in the U.S. may generally only be offered or sold in the U.S. pursuant to a registration statement filed with the SEC or in an offering that qualifies for an exemption from registration. Persons that effect transactions in cryptocurrencies that are securities in the U.S. may be subject to registration with the SEC as a "broker" or "dealer." Platforms that bring together purchasers and sellers to trade cryptocurrencies that are securities in the U.S. are generally subject to registration as national securities exchanges, or must qualify for an exemption, such as by being operated by a registered broker-dealer as an alternative trading system, in compliance with rules for alternative trading systems. Persons facilitating clearing and settlement of securities may be subject to registration with the SEC as a clearing agency. Foreign jurisdictions may have similar licensing, registration and qualification requirements. In the event that the SEC, a foreign regulatory authority, or a court were to determine that a stablecoin currently offered, sold or exchanged on the xSigma Corporation's platform is a "security" under applicable laws, xSigma Corporation could be subject to legal or regulatory action. This could include xSigma Corporation's exchange platform being subject to judicial or administrative sanctions for failing to offer or sell a cryptocurrency in compliance with the registration requirements, or for acting as a broker, dealer or national securities exchange without appropriate registration, as xSigma Corporation is not a licensed broker-dealer. Such an action could result in injunctions and cease and desist orders, as well as civil monetary penalties, fines or disgorgement, criminal liability or reputational harm. Customers that traded such supported cryptocurrency and suffered trading losses could also seek to rescind a transaction that xSigma Corporation facilitated on the basis that it was conducted in violation of applicable law, which could subject xSigma Corporation to significant liability.

**Risks Related to The Equity, Contract For Differences (CFD) and Crypto Trading Platform**

***Although xSigma Corporation have the know-your-customer, or KYC procedures to prevent offers and sales of CFD and Crypto assets in the United States or to U.S. persons, xSigma Corporation faces the risks related to the KYC procedures when the clients provide outdated, inaccurate, false or misleading information or use virtual private network to visit xSigma Trading, the equity, CFD and Crypto trading platform.***

xSigma Trading, the equity, CFD and Crypto trading platform, is under beta testing and is planned to be launched by xSigma Corporation in February 2022. xSigma Corporation is actively seeking partners that are licensed in the markets that xSigma Trading will be launching in and plans to apply for its own license in the future. xSigma Trading or its licensed partners will establish a blacklist IP address to block the users from U.S. sanctioned countries and the U.S. xSigma Trading or its licensed partners will also collect client information during the account opening and registration process and screen accounts against public databases or collaborates with external service providers for purpose of verifying client identity and detecting risks. xSigma Corporation or its licensed partners will have a dedicated team to conduct the KYC procedure on new clients' backgrounds and identify manually and will request the clients to reconfirm that they are not U.S. persons on an annual basis. xSigma Corporation will reject all account applications if there is any U.S. exposure. For example, we will not allow U.S. citizens or residents to open an account with xSigma Corporation and xSigma Corporation will require the potential clients to provide copies of their passports or identity cards in connection with their account applications. Although xSigma Corporation will require the clients to submit documents for proof of their identity for completing the account registration and to update such information from time to time, xSigma Corporation faces risks as the information provided by the clients may be outdated, inaccurate, false or misleading. xSigma Corporation cannot fully confirm the accuracy, currency and completeness of such information beyond reasonable effort. For instance, if a potential client only provides a non-U.S. passport or identity card, and misinforms xSigma Corporation that he or she does not also possess a U.S. passport or permanent resident card, xSigma Corporation might not be able to detect such misinformation. In addition, as a client who is not a U.S. citizen or resident at the time of account registration may later obtain U.S. citizenship or residential status and fail to update xSigma Corporation in a timely manner, our customer database might not be entirely accurate at all time. Despite the efforts to exclude persons who reside in jurisdictions where xSigma Corporation has no license or permit such as the United States, the provision of products and services to such clients could be in violation of the applicable laws and regulations in those jurisdictions, of which xSigma Corporation may have no awareness until xSigma Corporation is warned by the relevant supervising authorities. In addition, anonymous accounts are generally not allowed to be opened, heightened scrutiny measures are imposed on accounts opened on behalf of third parties and additional verification measures are conducted before xSigma Corporation accepts third party payments against the accounts of the clients.

Despite the safeguards, xSigma Corporation could still be subject to certain legal or regulatory sanctions, fines or penalties, financial loss, or damage to reputation resulting from such violations. There is no assurance that xSigma Corporation will be able to successfully identify and exclude all persons who resides in jurisdictions where xSigma Corporation has no license or permit to operate, including the United States. If U.S. citizens and residents were to register on and begin using the platform, xSigma Corporation may be subject to the scrutiny of U.S. regulatory agencies and required to comply with applicable laws and regulations in the United States, including the requirements to obtain relevant licenses and permits for providing the products to U.S. citizens and residents. In addition, xSigma Corporation may not be able to prevent users from using virtual private network or other high technology measures to circumvent the blacklist IP address to visit the websites. xSigma Corporation currently do not intend to apply for such licenses and permits in the United States, and if xSigma Corporation determines to do so, there is no guarantee that xSigma Corporation will successfully obtain such licenses in a timely fashion, or at all. xSigma Trading, LLC could be subject to disciplinary or other actions by the U.S. regulatory agencies due to claimed noncompliance which could have a material adverse effect on our business, financial condition and results of operations.

In addition, although xSigma Corporation have strict internal policies for continuing KYC procedures after the activation of accounts and for issues such as anti-corruption, economic sanctions, anti-money laundering, export controls and securities fraud, xSigma Corporation mainly rely on the continuing KYC procedures to ensure the compliance with relevant laws and regulations related to anti-corruption, economic sanctions, anti-money laundering, export controls and securities fraud. Although xSigma Corporation have trainings for the employees in all of the departments, the KYC system and procedures cannot be foolproof. Any potential flaw in the KYC system or any misconduct in the KYC procedures by any of the employees may lead to the failure of compliance with such relevant laws and regulations, which will further subject xSigma Corporation to certain legal or regulatory sanctions, fines or penalties, financial loss, or damage to reputation.

### **Risks Related to the Non-fungible Token (NFT) Marketplace**

***The failure to safeguard and manage xSigma Collectibles' customers' fiat money and crypto assets could adversely impact our business, operating results, and financial condition.***

In November 2021, xSigma Collectibles launched MaximNFT, an exclusive NFT marketplace in partnership with the iconic men's lifestyle brand Maxim. The success of MaximNFT requires significant public confidence in our ability, or the partners or service providers, if any, to properly manage customers' balances and assets and handle large transaction volumes and amounts of customer funds. xSigma Collectibles must continue to strengthen the associated internal controls and ensure that the service providers do the same. In addition, xSigma Collectibles may be dependent on the service providers' operations, liquidity, and financial condition for the proper maintenance, use, and safekeeping of these customer assets. MaximNFT allows its users to connect and link their own digital wallets, such as Metamask, to the MaximNFT marketplace, therefore, any failure by xSigma Collectibles or the service providers to maintain the necessary controls or to manage customers' crypto assets and funds appropriately and in compliance with applicable regulatory requirements could result in reputational harm, significant financial losses, lead customers to discontinue or reduce their use of xSigma Collectibles' and the service providers' products, and result in significant penalties and fines and additional restrictions, which could adversely impact our business, operating results, and financial condition.

xSigma Collectibles, or the partner, or the service providers, may deposit, transfer, and custody customer's NFT in multiple jurisdictions. In each instance, xSigma Collectibles is required to safeguard customers' assets using high-level security standards applicable to the or service providers' hot and cold wallet and storage systems, as well as the financial management systems. xSigma Collectibles' security technology is designed to prevent, detect, and mitigate inappropriate access to the systems, by internal or external threats. We believe xSigma Collectibles has developed and maintained administrative, technical, and physical safeguards designed to comply with applicable legal requirements and industry standards. However, it is nevertheless possible that hackers, employees or service providers acting contrary to xSigma Collectibles' policies, or others could circumvent these safeguards to improperly access xSigma Collectibles' systems or documents, or the systems or documents of the business partners, agents, or service providers, and improperly access, obtain, misuse customers' crypto assets and funds. The methods used to obtain unauthorized access, disable, or degrade service or sabotage systems are also constantly changing and evolving and may be difficult to anticipate or detect for long periods of time. Additionally, transactions undertaken through the platform or other electronic channels may create risks of fraud, hacking, unauthorized access or acquisition, and other deceptive practices. Any security incident resulting in a compromise of customer assets could result in substantial costs to xSigma Collectibles and require xSigma Collectibles to notify impacted individuals, and in some cases regulators, of a possible or actual incident, expose xSigma Collectibles to regulatory enforcement actions, including substantial fines, limit xSigma Collectibles' ability to provide services, subject xSigma Collectibles to litigation, significant financial losses, damage our reputation, and adversely affect our business, operating results, financial condition, and cash flows.

### **Risks Related to Doing Business in China**

***The Chinese government may intervene or influence the operations of the PRC subsidiaries at any time. Such risks may result in a material change in the operations of the PRC subsidiaries, significant depreciation of the value of our ordinary shares, or a complete hindrance of our ability to offer or continue to offer our securities to investors and cause the value of such securities to significantly decline or be worthless.***

The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. The Chinese government may intervene or influence the operations of the PRC subsidiaries at any time. The ability of the PRC subsidiaries to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, environmental regulations, land use rights, property and other matters. The central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in operations and properties in China. These risks could result in a material change in the operation of the PRC subsidiaries and the value of our securities.



Additionally, the PRC government has indicated an intent to exert more oversight and control over offering that are conducted overseas and foreign investment in China-based issuers, like us, and has initiated a series of regulatory actions and statements recently to regulate business operations in China with little advance notice, including cracking down on illegal activities in the securities market, adopting new measures to extend the scope of cybersecurity reviews, and expanding the efforts in anti-monopoly enforcement. Since these statements and regulatory actions are new, it is highly uncertain how soon legislative or administrative regulation making bodies will respond and what existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated, if any, and the potential impact such modified or new laws and regulations will have on the ability of the PRC subsidiaries to conduct business, accept foreign investments, and list on an U.S. or other foreign exchange. These risks may result in a material change in the operations of the PRC subsidiaries, significant depreciation of the value of our ordinary shares, or a complete hindrance of our ability to offer or continue to offer our securities to investors and cause the value of such securities to significantly decline or be worthless.

***The Chinese government exerts substantial influence over the manner in which the PRC subsidiaries must conduct business activities. We are currently not required to obtain approval from Chinese authorities to list on U.S. exchanges, however, if our holding company or subsidiaries were required to obtain approval in the future and were denied permission from Chinese authorities to list on U.S. exchanges, we will not be able to continue listing on U.S. exchange, which may cause the value of our ordinary shares to significantly decline or be worthless.***

On June 10, 2021, the Standing Committee of the National People’s Congress enacted the PRC Data Security Law, which took effect on September 1, 2021. The law requires data collection to be conducted in a legitimate and proper manner, and stipulates that, for the purpose of data protection, data processing activities must be conducted based on data classification and hierarchical protection system for data security.

On August 20, 2021, the 30th meeting of the Standing Committee of the 13th National People’s Congress voted and passed the “Personal Information Protection Law of the People’s Republic of China”, or “PRC Personal Information Protection Law”, which became effective on November 1, 2021. The PRC Personal Information Protection Law applies to the processing of personal information of natural persons within the territory of China that is carried out outside of China where (1) such processing is for the purpose of providing products or services for natural persons within China, (2) such processing is to analyze or evaluate the behavior of natural persons within China, or (3) there are any other circumstances stipulated by related laws and administrative regulations.

On December 28, 2021, the CAC jointly with the relevant authorities formally published Measures for Cybersecurity Review (2021) which will take effect on February 15, 2022 and replace the former Measures for Cybersecurity Review (2020) issued on July 10, 2021. Measures for Cybersecurity Review (2021) stipulates that operators of critical information infrastructure purchasing network products and services, and online platform operator (together with the operators of critical information infrastructure, the “Operators”) carrying out data processing activities that affect or may affect national security, shall conduct a cybersecurity review, any online platform operator who controls more than one million users’ personal information must go through a cybersecurity review by the cybersecurity review office if it seeks to be listed in a foreign country.

We do not believe that we or any of our subsidiaries is deemed to be an “Operator” that are required to file for cybersecurity review, because (i) we do not collect or store personal information except for those of our employees and such number of PRC individuals are much less than one million and (ii) as of the date of this annual report, none of our subsidiaries have been informed by any PRC governmental authority of any requirement that it files for a cybersecurity review or a CSRC review.

However, since these statements and regulatory actions are new, it is highly uncertain how soon the legislative or administrative regulation making bodies will respond and what existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated, if any. It is also highly uncertain what the potential impact such modified or new laws and regulations will have on the daily business operations of our subsidiaries, their respective abilities to accept foreign investments and the continued listing of our ordinary shares on Nasdaq or other foreign exchanges. There remains significant uncertainty in the interpretation and enforcement of relevant PRC cybersecurity laws and regulations. If any of our subsidiaries is deemed to be an “Operator”, or if the Measures for Cybersecurity Review (2021) or the PRC Personal Information Protection Law becomes applicable to our subsidiaries, the business operation of our subsidiaries and the continued listing of our ordinary shares on Nasdaq could be subject to the CAC’s cybersecurity review in the future. If any of our subsidiaries become subject to the CAC review, we cannot assure you that our subsidiaries will be able to comply with the regulatory requirements in all respects and the current practice of collecting and processing personal information may be ordered to be rectified or terminated by regulatory authorities. In the event of a failure to comply, our subsidiaries may become subject to fines and other penalties which may have a material adverse effect on our business, operations and financial condition and may cause the value of our ordinary shares to significantly decline or be worthless.

***The approval of the China Securities Regulatory Commission may be required in connection with future offerings, and, if required, we cannot predict whether we will be able to obtain such approval.***

On August 8, 2006, six PRC regulatory agencies, including the CSRC, adopted the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. Foreign investors shall comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe to the increased capital of a domestic company and thus change the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the assets; or when the foreign investors purchase the assets of a domestic company, establish a foreign-invested enterprise by injecting such assets and operate the assets. The M&A Rules purport to require offshore special purpose companies/vehicles formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain approval from the CSRC prior to publicly listing their securities on an overseas stock exchange.

On July 6, 2021, the State Council and General Office of the CPC Central Committee issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. The opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies.

On December 24, 2021, the CSRC, together with other relevant government authorities in China issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), and the Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (“Draft Overseas Listing Regulations”). The Draft Overseas Listing Regulations requires that a PRC domestic enterprise seeking to issue and list its shares overseas (“Overseas Issuance and Listing”) shall complete the filing procedures of and submit the relevant information to CSRC. The Overseas Issuance and Listing includes direct and indirect issuance and listing. Where an enterprise whose principal business activities are conducted in PRC seeks to issue and list its shares in the name of an overseas enterprise (“Overseas Issuer”) on the basis of the equity, assets, income or other similar rights and interests of the relevant PRC domestic enterprise, such activities shall be deemed an indirect overseas issuance and listing (“ Indirect Overseas Issuance and Listing”) under the Draft Overseas Listing Regulations.

There remain some uncertainties as to whether the Draft Overseas Listing Regulations are applicable to us and our continued listing on Nasdaq. If it is determined that CSRC approval is required for our continued listing, we may face sanctions by the CSRC or other PRC regulatory agencies for failure to seek CSRC approval for future offerings. These sanctions may include fines and penalties on the operations of the PRC subsidiaries, limitations on our operating privileges in the PRC, suspension of business operations in the PRC, delays in or restrictions on the repatriation of the proceeds from future offerings into the PRC, restrictions on or prohibition of the payments or remittance of dividends by our PRC subsidiary, or other actions that could have a material and adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ordinary shares.

***The Opinions recently issued by the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council may subject us to additional compliance requirement in the future.***

Recently, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the Opinions, which were made available to the public on July 6, 2021. The Opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies. These opinions proposed to take effective measures, such as promoting the construction of relevant regulatory systems, to deal with the risks and incidents facing China-based overseas-listed companies and the demand for cybersecurity and data privacy protection. The aforementioned policies and any related implementation rules to be enacted may subject us to additional compliance requirement in the future. As the Opinions were recently issued, official guidance and interpretation of the Opinions remain unclear in several respects at this time. Therefore, we cannot assure you that we will remain fully compliant with all new regulatory requirements of the Opinions or any future implementation rules on a timely basis, or at all.

***If we become directly subject to the recent scrutiny, criticism and negative publicity involving U.S.-listed Chinese companies, we may have to expend significant resources to investigate and resolve the matter which could harm our business operations and our reputation and could result in a loss of your investment in our stock, especially if such matter cannot be addressed and resolved favorably.***

Recently, U.S. public companies that have substantially all of their operations in China, have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the SEC. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stock of many U.S. listed Chinese companies has sharply decreased in value and, in some cases, has become virtually worthless. Many of these companies are now subject to shareholder lawsuits and SEC enforcement actions and are conducting internal and external investigations into the allegations. It is not clear what effect this sector-wide scrutiny, criticism and negative publicity will have on our company and our business. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend the Company. This situation may be a major distraction to our management. If such allegations are not proven to be groundless, our company and business operations will be severely hampered and your investment in our stock could be rendered worthless.

***Our PRC subsidiaries' books and records are prepared in accordance with China GAAP, not U.S. GAAP.***

Substantially all of the business operations of ZK International's subsidiaries are located in the PRC. Although ZK International's reports are prepared in accordance with U.S. GAAP, our PRC subsidiaries' books and records are prepared in accordance with China GAAP. Despite our efforts to improve the Company's controls and procedures, our accounting personnel do not have sufficient knowledge, experience and training in maintaining our books and records in accordance with U.S. GAAP standards. If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm the value of our shares.

***Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and materially and adversely affect our competitive position.***

Substantially all of our business operations are conducted in China. Accordingly, our business, results of operations, financial condition and prospects are subject to economic, political and legal developments in China. Although the Chinese economy is no longer a planned economy, the PRC government continues to exercise significant control over China's economic growth through direct allocation of resources, monetary and tax policies, and a host of other government policies such as those that encourage or restrict investment in certain industries by foreign investors, control the exchange between RMB and foreign currencies, and regulate the growth of the general or specific market. These government involvements have been instrumental in China's significant growth in the past 30 years. In response to the recent global and Chinese economic downturn, the PRC government has adopted policy measures aimed at stimulating the economic growth in China. If the PRC government's current or future policies fail to help the Chinese economy achieve further growth or if any aspect of the PRC government's policies limits the growth of our industry or otherwise negatively affects our business, our growth rate or strategy, our results of operations could be adversely affected as a result.

***Labor laws in the PRC may adversely affect our results of operations.***

On June 29, 2007, the PRC government promulgated a new labor law, namely, the Labor Contract Law of the PRC, which became effective on January 1, 2008, which was further amended on December 28, 2012 (effective July 1, 2013). The Labor Contract Law imposes greater liabilities on employers and significantly affects the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations. The Labor Contract Law also mandates that employers provide social welfare packages to all employees, increasing our labor costs. To the extent competitors from outside China are not affected by such requirements, we could be at a comparative disadvantage.

***Imposition of trade barriers and taxes may reduce our ability to do business internationally, and the resulting loss of revenue could harm our profitability.***

We may experience barriers to conducting business and trade in our targeted emerging markets in the form of delayed customs clearances, customs duties and tariffs. In addition, we may be subject to repatriation taxes levied upon the exchange of income from local currency into foreign currency, substantial taxes on profits, revenues, assets and payroll, as well as value-added tax. The markets in which we plan to operate may impose onerous and unpredictable duties, tariffs and taxes on our business and products, and there can be no assurance that this will not reduce the level of sales that we achieve in such markets, which would reduce our revenues and profits.

***Under the Enterprise Income Tax Law, we may be classified as a “Resident Enterprise” of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC stockholders.***

China passed an Enterprise Income Tax Law (the “EIT Law”) and implementing rules, both of which became effective on January 1, 2008. Under the EIT Law, an enterprise established outside of China with “de facto management bodies” within China is considered a “resident enterprise,” meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define de facto management as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

On April 22, 2009, the State Administration of Taxation of China issued the Notice Concerning Relevant Issues Regarding Cognizance of Chinese Investment Controlled Enterprises Incorporated Offshore as Resident Enterprises pursuant to Criteria of de facto Management Bodies, or the Notice, further interpreting the application of the EIT Law and its implementation to offshore entities controlled by a Chinese enterprise or group. Pursuant to the Notice, an enterprise incorporated in an offshore jurisdiction and controlled by a Chinese enterprise or group will be classified as a “non-domestically incorporated resident enterprise” if (i) its senior management in charge of daily operations reside or perform their duties mainly in China; (ii) its financial or personnel decisions are made or approved by bodies or persons in China; (iii) its substantial assets and properties, accounting books, corporate stamps, board and stockholder minutes are kept in China; and (iv) at least half of its directors with voting rights or senior management are often resident in China. A resident enterprise would be subject to an enterprise income tax rate of 25% on its worldwide income and must pay a withholding tax at a rate of 10% when paying dividends to its non-PRC stockholders. However, it remains unclear as to whether the Notice is applicable to an offshore enterprise controlled, but not necessarily owned, by a Chinese natural person. Therefore, it is unclear how tax authorities will determine tax residency based on the facts of each case.

If the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Currently, we do not have any non-China source income, so this would have minimal effect on us; however, if we develop non-China source income in the future, we could be adversely affected. Second, under the EIT Law and its implementing rules, dividends paid to us from our PRC subsidiaries would qualify as “tax-exempt income.” Finally, it is possible that future guidance issued with respect to the new “resident enterprise” classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC stockholders and with respect to gains derived by our non-PRC stockholders from transferring our shares.

***Since the operations of the PRC subsidiaries and substantially all of our assets are located in the PRC, shareholders may find it difficult to enforce a U.S. judgment against the assets of our company, our directors and executive officers.***

The operations and assets of the PRC subsidiaries are located in the PRC. In addition, most of our executive officers and directors are non-residents of the U.S., and substantially all the assets of such persons are located outside the U.S. As a result, it could be difficult for investors to effect service of process in the U.S., or to enforce a judgment obtained in the U.S. against us or any of these persons.

There is uncertainty as to whether the courts of China would (1) recognize or enforce judgments of United States courts obtained against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or (2) be competent to hear original actions brought in each respective jurisdiction, against us or such persons predicated upon the securities laws of the United States or any state thereof.

The recognition and enforcement of foreign judgments are provided for under the Chinese Civil Procedure Law. Chinese courts may recognize and enforce foreign judgments in accordance with the requirements of the Chinese Civil Procedure Law based either on treaties between China and the country where the judgment is made or in reciprocity between jurisdictions. China does not have any treaties or other agreements with the British Virgin Islands or the United States that provide for the reciprocal recognition and enforcement of foreign judgments. As a result, it is uncertain whether a Chinese court would enforce a judgment rendered by a court in either of these two jurisdictions.

The United States and the British Virgin Islands do not have a treaty providing for reciprocal recognition and enforcement of judgments of courts of the United States in civil and commercial matters and that a final judgment for the payment of money rendered by any general or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, may not be enforceable in the British Virgin Islands. A final and conclusive judgment obtained in U.S. federal or state courts under which a sum of money is payable as compensatory damages (i.e., not being a sum claimed by a revenue authority for taxes or other charges of a similar nature by a governmental authority, or in respect of a fine or penalty or multiple or punitive damages) may be the subject of an action on a debt in the court of the British Virgin Islands.

***We may be exposed to liabilities under the Foreign Corrupt Practices Act and Chinese anti-corruption law.***

We are subject to the U.S. Foreign Corrupt Practices Act, or FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute for the purpose of obtaining or retaining business. We are also subject to Chinese anti-corruption laws, which strictly prohibit the payment of bribes to government officials. We have operations, agreements with third parties, and make sales in China, which may experience corruption. Our activities in China create the risk of unauthorized payments or offers of payments by one of the employees, consultants or distributors of ZK International's operating subsidiaries, because these parties are not always subject to our control. We are in process of implementing an anticorruption program, which prohibits the offering or giving of anything of value to foreign officials, directly or indirectly, for the purpose of obtaining or retaining business. The anticorruption program also requires that clauses mandating compliance with our policy be included in all contracts with foreign sales agents, sales consultants and distributors and that they certify their compliance with our policy annually. It further requires that all hospitality involving promotion of sales to foreign governments and government-owned or controlled entities be in accordance with specified guidelines. In the meantime, we believe to date we have complied in all material respects with the provisions of the FCPA and Chinese anti-corruption law.

However, our existing safeguards and any future improvements may prove to be less than effective, and the employees, consultants or distributors of ZK International's operating subsidiaries may engage in conduct for which we might be held responsible. Violations of the FCPA or Chinese anti-corruption law may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the government may seek to hold ZK International or its subsidiaries liable for successor liability FCPA violations committed by companies in which we invest or that we acquire.

***Uncertainties regarding the enforcement of laws and that rules and regulations in China can change quickly with little advance notice could adversely affect us.***

We conduct all of our business through our subsidiaries in China. The operations of the PRC subsidiaries in China are governed by PRC laws and regulations. Our PRC subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws and regulations applicable to wholly foreign-owned enterprises. The PRC legal system is based on statutes. Prior court decisions may be cited for reference but have limited precedential value.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Recently, the General Office of the State Council and another PRC authority jointly issued the “Opinions on Severely Cracking Down on Illegal Securities Activities According to Law” (the “Opinions”), which was promulgated on July 6, 2021. The Opinions emphasized the need to strengthen the administration over illegal securities activities, the need to strengthen the supervision over overseas listings by PRC-based companies and the need to revise the special provisions of the State Council on overseas issuance and listing of shares by those companies. Effective measures, such as promoting the construction of relevant regulatory systems will be taken to deal with the risks and incidents of PRC-based companies, and cybersecurity, data security, privacy protection requirements and similar matters. If the CSRC or other regulatory agencies later promulgate new rules or explanations requiring that we obtain their approvals for any additional offering, we may be unable to obtain such approvals which could significantly limit or completely hinder our ability to raise additional capital.

Furthermore, the PRC government may strengthen oversight and control over offerings conducted overseas and/or foreign investment in issuers with substantial operations in China, like us. Such actions taken by the PRC government may intervene or influence our PRC Subsidiaries’ operations at any time, which are beyond our control. Therefore, any such action may adversely affect our operations and significantly limit or hinder our ability to raise additional capital and cause the value of such securities to significantly decline or be worthless.

Uncertainties regarding the enforcement of laws and the fact that rules and regulations in China can change quickly with little advance notice, along with the risk that the Chinese government may intervene or influence our PRC Subsidiaries’ operations at any time, or may exert more control over offerings conducted overseas and/or foreign investment in issuers with substantial operations in China could result in a material change in our operations or financial performance and/or could result in a material reduction in the value of our ordinary shares or hinder our ability to raise necessary capital.

***Governmental control of currency conversion may affect the value of your investment.***

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our security-holders.

***Fluctuations in exchange rates could adversely affect our business and the value of our securities.***

Changes in the value of the RMB against the U.S. dollar, Euro and other foreign currencies are affected by, among other things, changes in China’s political and economic conditions. Any significant revaluation of the RMB may have a material adverse effect on our revenues and financial condition, and the value of, and any dividends payable on our shares in U.S. dollar terms. For example, to the extent that we need to convert U.S. dollars we received from our future offerings into RMB for the operations of the PRC subsidiaries, appreciation of the RMB against the U.S. dollar would have an adverse effect on RMB amount we would receive from the conversion. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of paying dividends on our Ordinary Shares or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us. In addition, fluctuations of the RMB against other currencies may increase or decrease the cost of imports and exports, and thus affect the price-competitiveness of our products against products of foreign manufacturers or products relying on foreign inputs.

Since July 2005, the RMB is no longer pegged to the U.S. dollar. Although the People’s Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

We reflect the impact of currency translation adjustments in our financial statements under the heading “accumulated other comprehensive (loss)/income.” For the years ended September 30, 2021, 2020 and 2019, we had adjustment gain of \$2,423,439, adjustment gain of \$2,319,048, and adjustment loss of \$1,694,278, respectively, for foreign currency translations. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

***PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law.***

SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident’s Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. SAFE Circular 37 is issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular 75. SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment in February 2015, which took effect on June 1, 2015. This notice has amended SAFE Circular 37 requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

If our shareholders who are PRC residents or entities do not complete their registration as required, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

Our shareholders who are PRC residents have not completed their registration with the local SAFE branches. The failure of our beneficial owners who are PRC residents to register or amend their SAFE registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries’ ability to make distributions or pay dividends to us or affect our ownership structure, which could adversely affect our business and prospects.

Furthermore, as these foreign exchange regulations are still relatively new and their interpretation and implementation has been constantly evolving, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency denominated borrowings, which may adversely affect our financial condition and results of operations. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

***Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.***

We are required under PRC laws and regulations to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. We did not pay, or were not able to pay, certain social insurance or housing fund contributions for all of our employees and the amount we paid was lower than the requirements of relevant PRC regulations. If we are determined by local authorities to fail to make adequate contributions to any employee benefits as required by relevant PRC regulations, we may face late fees or fines in relation to the underpaid employee benefits. As a result, our financial condition and results of operations may be materially and adversely affected.

**Risks Related to Our Corporate Structure**

***ZK International is a holding company and will rely on dividends paid by our subsidiaries for our cash needs. Any limitation on the ability of our subsidiaries to make dividend payments to us, or any tax implications of making dividend payments to us, could limit our ability to pay our expenses or pay dividends to holders of our ordinary shares.***

We are a BVI holding company and conduct substantially all of our business through our subsidiaries in China. We may rely on dividends to be paid by our PRC subsidiaries to fund our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict our PRC subsidiaries' ability to pay dividends or make other distributions to us.

Under PRC laws and regulations, our PRC subsidiaries may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises are required to set aside at least 10% of their accumulated after-tax profits each year, if any, to fund a certain statutory reserve fund, until the aggregate amount of such fund reaches 50% of its registered capital.

Our PRC subsidiaries generate primarily all of their revenue in Renminbi, which is not freely convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of any one of our PRC subsidiaries to use its Renminbi revenues to pay dividends to us. The PRC government may continue to strengthen its capital controls, and more restrictions and substantial vetting process may be put forward by SAFE for cross-border transactions falling under both the current account and the capital account. Any limitation on the ability of our PRC subsidiary to pay dividends or make other kinds of payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

In addition, the Enterprise Income Tax Law, or EIT, and its implementation rules provide that a withholding tax rate of up to 10% will be applicable to dividends payable by Chinese companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC resident enterprises are incorporated. Any limitation on the ability of our PRC subsidiary to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, or the Double Tax Avoidance Arrangement, the 10% withholding tax rate may be lowered to 5% if a Hong Kong resident enterprise owns no less than 25% of a PRC entity. However, the 5% withholding tax rate does not automatically apply and certain requirements must be satisfied, including, without limitation, that (a) the Hong Kong entity must be the beneficial owner of the relevant dividends; and (b) the Hong Kong entity must directly hold no less than 25% share ownership in the PRC entity during the 12 consecutive months preceding its receipt of the dividends. In current practice, a Hong Kong entity must obtain a tax resident certificate from the Hong Kong tax authority to apply for the 5% lower PRC withholding tax rate. As the Hong Kong tax authority will issue such a tax resident certificate on a case-by-case basis, we cannot assure you that we will be able to obtain the tax resident certificate from the relevant Hong Kong tax authority and enjoy the preferential withholding tax rate of 5% under the Double Taxation Arrangement with respect to dividends to be paid by our PRC subsidiaries to their immediate holding company in Hong Kong, ZK Pipe. ZK Pipe intends to apply for the tax resident certificate when its immediate subsidiary, Wenzhou Weijia, plans to declare and pay dividends to ZK Pipe. As of the date of this annual report, Wenzhou Weijia do not have plans to declare and pay dividends to ZK Pipe.



***PRC regulation of loans to and direct investment in PRC entities by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC operating subsidiaries.***

As an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or may make additional capital contributions to our PRC subsidiaries, subject to satisfaction of applicable governmental registration and approval requirements.

Any loans we extend to our PRC subsidiaries, which are treated as foreign-invested enterprises under PRC law, cannot exceed the statutory limit and must be registered with the local counterpart of the SAFE.

We may also decide to finance our PRC subsidiaries by means of capital contributions. According to the relevant PRC regulations on foreign-invested enterprises in China, these capital contributions are subject to registration with or approval by the MOFCOM or its local counterparts. In addition, the PRC government also restricts the convertibility of foreign currencies into Renminbi and use of the proceeds. On March 30, 2015, SAFE promulgated Circular 19, which took effect and replaced certain previous SAFE regulations from June 1, 2015. SAFE further promulgated Circular 16, effective on June 9, 2016, which, among other things, amend certain provisions of Circular 19. According to SAFE Circular 19 and SAFE Circular 16, the flow and use of the Renminbi capital converted from foreign currency denominated registered capital of a foreign-invested company is regulated such that Renminbi capital may not be used for business beyond its business scope or to provide loans to persons other than affiliates unless otherwise permitted under its business scope. Violations of the applicable circulars and rules may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Regulations. These circulars may limit our ability to transfer the net proceeds from future offerings to our PRC subsidiaries, and we may not be able to convert the net proceeds from future offerings into Renminbi to invest in or acquire any other PRC companies in China.

In light of the various requirements imposed by PRC regulations on loans to, and direct investment in, PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans or capital contributions to our PRC subsidiaries by us. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we expect to receive from future offerings and to fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

**Risks Related to Our Ordinary Shares**

***Our ordinary shares may be delisted under the Holding Foreign Companies Accountable Act if the PCAOB is unable to inspect our auditors for three consecutive years beginning in 2021. The delisting of our ordinary shares, or the threat of their being delisted, may materially and adversely affect the value of your investment.***

The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. The HFCA Act states if the SEC determines that a company has filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit such securities from being traded on a national securities exchange or in the over the counter trading market in the United States.

On March 24, 2021, the SEC announced that it had adopted interim final amendments to implement congressionally mandated submission and disclosure requirements of the Act. The interim final amendments will apply to registrants that the SEC identifies as having filed an annual report on Forms 10-K, 20-F, 40-F or N-CSR with an audit report issued by a registered public accounting firm that is located in a foreign jurisdiction and that the PCAOB has determined it is unable to inspect or investigate completely because of a position taken by an authority in that jurisdiction. The SEC will implement a process for identifying such a registrant and any such identified registrant will be required to submit documentation to the SEC establishing that it is not owned or controlled by a governmental entity in that foreign jurisdiction, and will also require disclosure in the registrant's annual report regarding the audit arrangements of, and governmental influence on, such a registrant.

On June 22, 2021, the U.S. Senate passed Accelerating Holding Foreign Companies Accountable Act which, if passed by the U.S. House of Representatives and signed into law, would reduce the number of consecutive non-inspection years required for triggering the prohibitions under the Holding Foreign Companies Accountable Act from three years to two.

On September 22, 2021, the PCAOB adopted a final rule implementing the HFCAA, which provides a framework for the PCAOB to use when determining, as contemplated under the HFCAA, whether the PCAOB is unable to inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction.

On December 2, 2021, the SEC issued amendments to finalize rules implementing the submission and disclosure requirements in the HFCA Act. The rules apply to registrants that the SEC identifies as having filed an annual report with an audit report issued by a registered public accounting firm that is located in a foreign jurisdiction and that PCAOB is unable to inspect or investigate completely because of a position taken by an authority in foreign jurisdictions.

On December 16, 2021, SEC announced that the PCAOB designated China and Hong Kong as the jurisdictions where the PCAOB is not allowed to conduct full and complete audit inspections as mandated under the HFCAA.

The lack of access to the PCAOB inspection in China prevents the PCAOB from fully evaluating audits and quality control procedures of the auditors based in China. As a result, the investors may be deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of these accounting firms' audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause existing and potential investors in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Neither ZK International nor any of its subsidiaries has been identified and we do not expect ZK International or any of its subsidiaries to be identified by the Commission under the HFCAA. Our auditor, ZH CPA, LLC, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess our auditor's compliance with the applicable professional standards. Our auditor is based in Denver Colorado and is subject to inspection by the PCAOB on a regular basis, with the latest inspection completed in January 2021. ZH CPA, LLC is not subject to the determinations announced by the PCAOB on December 16, 2021.

However, recent developments with respect to audits of China-based companies create uncertainty about the ability of ZH CPA, LLC to fully cooperate with the PCAOB's request for audit workpapers without the approval of the Chinese authorities. We cannot assure you whether Nasdaq or regulatory authorities would apply additional and more stringent criteria to us after considering the effectiveness of our auditor's audit procedures and quality control procedures, adequacy of personnel and training, or sufficiency of resources, geographic reach or experience as it relates to the audit of our financial statements. It remains unclear what the SEC's implementation process related to the above rules will entail or what further actions the SEC, the PCAOB or Nasdaq will take to address these issues and what impact those actions will have on U.S. companies that have significant operations in the PRC and have securities listed on a U.S. stock exchange. In addition, the above amendments and any additional actions, proceedings, or new rules resulting from these efforts to increase U.S. regulatory access to audit information could create some uncertainty for investors, the market price of our ordinary shares could be adversely affected. In the event it is later determined that the PCAOB is unable to inspect or investigate completely the Company's auditor because of a position taken by an authority in a foreign jurisdiction, then such lack of inspection could cause trading in the Company's securities to be prohibited under the HFCAA ultimately result in a determination by a securities exchange to delist the Company's securities. In addition, under the HFCAA, our securities may be prohibited from trading on the Nasdaq or other U.S. stock exchanges if our auditor is not inspected by the PCAOB for three consecutive years, which could be reduced to two consecutive years if the Accelerating Holding Foreign Companies Accountable Act is signed into law. If we cannot engage a new auditor within a reasonable time under reasonable terms, our ordinary shares may be delisted, and the price of our ordinary shares may significantly decrease or become worthless.

***We are an "emerging growth company," and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our ordinary shares less attractive to investors.***

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act, or the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to five years, although we could lose that status sooner if our revenues exceed \$1 billion, if we issue more than \$1 billion in non-convertible debt in a three-year period, or if the market value of our Ordinary Shares held by non-affiliates exceeds \$700 million as of any June 30 before that time, in which case we would no longer be an emerging growth company as of the following December 31. We cannot predict if investors will find our Ordinary Shares less attractive because we may rely on these exemptions. If some investors find our Ordinary Shares less attractive as a result, there may be a less active trading market for our Ordinary Shares and our stock price may be more volatile.

***Our officers/directors have entered into an agreement to vote in concert, which provides control over majority of our Ordinary Shares and increases our influence on shareholder decisions.***

ZK International was incorporated on May 13, 2015 under the laws BVI, with 100% of the founding shares held by Kai Chun Cheng. On the same date, Jiancong Huang, Mingjie Wang, Guolin Wang, Jiandi Wang and Yangming Wang entered into an agreement to vote in concert in ZK International with Mr. Huang appointed as proxy effective completion of transfer of the ordinary shares held by Mr. Cheng. Pursuant to the agreement, which has a term of 20 years from its effective date of May 13, 2015, if the parties are unable to reach a unanimous consent in relation to the matters requiring action in concert, a decision made by more than 50% of the voting rights of the parties will be deemed a decision unanimously passed by all parties and will be binding on all parties. On July 29, 2015, Mr. Cheng entered into equity interest transfer agreements with and transferred to these individuals 45%, 20%, 20%, 10% and 5%, respectively, of ZK International's equity interest on October 12, 2015. All of these individuals are officers or directors of ZK International and/or our operating entity Zhejiang Zhengkang. As of January 28, 2022, our officers and/or directors beneficially own approximately 28.92% of our outstanding shares. As a result, our officers and directors will possess substantial ability to impact our management and affairs and the outcome of matters submitted to shareholders for approval. These shareholders, acting individually or as a group, could exert control and substantial influence over matters such as electing directors and approving mergers or other business combination transactions. This concentration of ownership and voting power may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our Ordinary Shares. These actions may be taken even if they are opposed by our other shareholders.

***As a foreign private issuer, our disclosure obligations differ from those of U.S. domestic reporting companies. As a result, we may not provide you the same information as U.S. domestic reporting companies or we may provide information at different times, which may make it more difficult for you to evaluate our performance and prospects.***

We are a foreign private issuer and, as a result, we are not subject to the same requirements as U.S. domestic issuers. Under the Exchange Act, we will be subject to reporting obligations that, to some extent, are more lenient and less frequent than those of U.S. domestic reporting companies. For example, we will not be required to issue quarterly reports or proxy statements. We will not be required to disclose detailed individual executive compensation information. Furthermore, our directors and executive officers will not be required to report equity holdings under Section 16 of the Exchange Act and will not be subject to the insider short-swing profit disclosure and recovery regime.

As a foreign private issuer, we will also be exempt from the requirements of Regulation FD (Fair Disclosure) which, generally, are meant to ensure that select groups of investors are not privy to specific information about an issuer before other investors. However, we will still be subject to the anti-fraud and anti-manipulation rules of the SEC, such as Rule 10b-5 under the Exchange Act. Since many of the disclosure obligations imposed on us as a foreign private issuer differ from those imposed on U.S. domestic reporting companies, you should not expect to receive the same information about us and at the same time as the information provided by U.S. domestic reporting companies.

***As a foreign private issuer, we are permitted to, and did follow certain home country corporate governance practices instead of otherwise applicable Nasdaq Capital Market requirements, which may result in less protection than is accorded to investors under rules applicable to domestic U.S. issuers.***

As a foreign private issuer, we are permitted to and did follow certain home country corporate governance practices instead of those otherwise required under the applicable rules of the Nasdaq Capital Market for domestic U.S. issuers, provided that we disclose the requirements we are not following and describe the home country practices we are following. We have elected to follow home country practice in British Virgin Islands in lieu of Nasdaq Capital Market Listing Rule 5600 with the exception of those rules which are required to be followed pursuant to the provisions of Listing Rule 5615(a)(3). See "Item 16G. Corporate Governance". Following our home country governance practices as opposed to the requirements that would otherwise apply to a U.S. company listed on the Nasdaq Capital Market may provide less protection to you than what is accorded to investors under the applicable rules of the Nasdaq Capital Market applicable to domestic U.S. issuers.

***If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Ordinary Shares may decline.***

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. In addition, beginning with this annual report on Form 20-F, we are required to furnish a report by management on the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We are in the process of designing, implementing, and testing the internal control over financial reporting required to comply with this obligation, which process is time consuming, costly, and complicated. In addition, our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting beginning with our annual report on Form 20-F following the date on which we are no longer an “emerging growth company”. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting when required, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Ordinary Shares could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the Securities and Exchange Commission, or the SEC, or other regulatory authorities, which could require additional financial and management resources.

***The requirements of being a public company may strain our resources and divert management’s attention.***

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the securities exchange on which we list, and other applicable securities rules and regulations. Despite recent reforms made possible by the JOBS Act, compliance with these rules and regulations will nonetheless increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources, particularly after we are no longer an “emerging growth company.” The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and operating results.

As a result of disclosure of information in filings required of a public company, our business and financial condition will become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business, brand and reputation and results of operations.

We also expect that being a public company and these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

***We have incurred and will continue to incur additional costs as a result of becoming a public company, which could negatively impact our net income and liquidity.***

As a public company, we ***have incurred and will continue to*** incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, Sarbanes-Oxley and rules and regulations implemented by the SEC and the Nasdaq Capital Market require significantly heightened corporate governance practices for public companies. We expect that these rules and regulations will increase our legal, accounting and financial compliance costs and will make many corporate activities more time-consuming and costly.

We do not expect to incur materially greater costs as a result of becoming a public company than those incurred by similarly sized U.S. public companies. If we fail to comply with these rules and regulations, we could become the subject of a governmental enforcement action, investors may lose confidence in us and the market price of our Ordinary Shares could decline.

***The obligation to disclose information publicly may put us at a disadvantage to competitors that are private companies.***

We are a publicly listed company in the United States. As a publicly listed company, we will be required to file periodic reports with the Securities and Exchange Commission upon the occurrence of matters that are material to our company and shareholders. In some cases, we will need to disclose material agreements or results of financial operations that we would not be required to disclose if we were a private company. Our competitors may have access to this information, which would otherwise be confidential. This may give them advantages in competing with our company. Similarly, as a U.S.-listed public company, we will be governed by U.S. laws that our competitors, which are mostly private Chinese companies, are not required to follow. To the extent compliance with U.S. laws increases our expenses or decreases our competitiveness against such companies, our public listing could affect our results of operations.

***We do not intend to pay dividends for the foreseeable future.***

We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. As a result, you may only receive a return on your investment in our Ordinary Shares if the market price of our Ordinary Shares increases.

***British Virgin Islands companies may not be able to initiate shareholder derivative actions, thereby depriving shareholders of the ability to protect their interests.***

British Virgin Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. The circumstances in which any such action may be brought, and the procedures and defenses that may be available in respect to any such action, may result in the rights of shareholders of a British Virgin Islands company being more limited than those of shareholders of a company organized in the United States. Accordingly, shareholders may have fewer alternatives available to them if they believe that corporate wrongdoing has occurred. The British Virgin Islands courts are also unlikely to recognize or enforce against us judgments of courts in the United States based on certain liability provisions of U.S. securities law; and to impose liabilities against us, in original actions brought in the British Virgin Islands, based on certain liability provisions of U.S. securities laws that are penal in nature. There is no statutory recognition in the British Virgin Islands of judgments obtained in the United States, although the courts of the British Virgin Islands will generally recognize and enforce the non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. This means that even if shareholders were to sue us successfully, they may not be able to recover anything to make up for the losses suffered.

***The laws of the British Virgin Islands provide little protection for minority shareholders, so minority shareholders will have little or no recourse if they are dissatisfied with the conduct of our affairs.***

Under the law of the British Virgin Islands, there is little statutory law for the protection of minority shareholders other than the provisions of the BVI Business Companies Act (the "BVI Act") dealing with shareholder remedies. The principal protection under statutory law is that shareholders may bring an action to enforce the company's memorandum and articles of association. Shareholders are entitled to have the affairs of the company conducted in accordance with the general law and the company's memorandum and articles of association.

There are common law rights for the protection of shareholders that may be invoked, largely dependent on English company law, since the common law of the British Virgin Islands for business companies is limited. Under the general rule pursuant to English company law known as the rule in *Foss v. Harbottle*, a court will generally refuse to interfere with the management of a company at the insistence of a minority of its shareholders who express dissatisfaction with the conduct of the company's affairs by the majority or the board of directors. However, every shareholder is entitled to have the affairs of the company conducted properly according to law and the constituent documents of the corporation. As such, if those who control the company have persistently disregarded the requirements of company law or the provisions of the company's memorandum and articles of association, then the courts will grant relief. Generally, the areas in which the courts will intervene are the following: (1) an act complained of which is outside the scope of the authorized business or is illegal or not capable of ratification by the majority; (2) acts that constitute fraud on the minority where the wrongdoers control the company; (3) acts that infringe on the personal rights of the shareholders, such as the right to vote; and (4) where the company has not complied with provisions requiring approval of a special or extraordinary majority of shareholders, which are more limited than the rights afforded minority shareholders under the laws of many states in the United States.

***Volatility in our ordinary share price may subject us to securities litigation.***

The market for our ordinary share may have, when compared to seasoned issuers, significant price volatility and we expect that the price of our ordinary shares may continue to be more volatile than that of a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may, in the future, be the target of similar litigation. Securities litigation could result in substantial costs and liabilities to the Company and could divert our management's attention and resources.

***The market price of the Company's ordinary shares may continue to be volatile.***

The trading price of our ordinary shares has been volatile and could continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control. From the beginning of 2021 through August 25, 2021, our ordinary shares have traded at a low of \$2.55 and a high of \$14.60 irrespective of our operating performance and with no discernable announcements or developments by the company or third parties. We may incur rapid and substantial decreases in our stock price in the foreseeable future that are unrelated to our operating performance or prospects. In addition, the recent outbreak of COVID-19 has caused broad stock market and industry fluctuations. The stock market in general and the market for companies such as us in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may experience losses on their investment in our ordinary shares. A decline in the market price of our ordinary shares also could adversely affect our ability to issue additional shares or other of our securities and our ability to obtain additional financing in the future. Factors affecting the trading price of the Company's ordinary shares may include:

- actual or anticipated fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in the market's expectations about our operating results;
- success of competitors;
- our operating results failing to meet the expectation of securities analysts or investors in a particular period;
- changes in financial estimates and recommendations by securities analysts concerning the Company or the lending market in general;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- our ability to market new and enhanced services on a timely basis;
- changes in laws and regulations affecting our business;
- commencement of, or involvement in, litigation involving the Company;
- the Company's ability to access the capital markets as needed;
- changes in the Company's capital structure, such as future issuances of securities or the incurrence of additional debt;
- the volume of our ordinary shares available for public sale;
- any major change in our board or management;
- sales of substantial amounts of ordinary shares by our directors, executive officers or significant shareholders or the perception that such sales could occur; and
- general economic and political conditions such as recessions, interest rates, fuel prices, international currency fluctuations and acts of war or terrorism.

*A possible “short squeeze” due to a sudden increase in demand of our ordinary shares that largely exceeds supply may lead to additional price volatility.*

Historically there has not been a large short position in our ordinary shares. However, in the future investors may purchase our ordinary shares to hedge existing exposure or to speculate on the price of our ordinary share. Speculation on the price of our ordinary shares may involve long and short exposures. To the extent an aggregate short exposure in our ordinary shares becomes significant, investors with short exposure may have to pay a premium to purchase shares for delivery to share lenders at times if and when the price of our ordinary shares increases significantly, particularly over a short period of time. Those purchases may in turn, dramatically increase the price of our ordinary shares. This is often referred to as a “short squeeze.” A short squeeze could lead to volatile price movements in our ordinary shares that are not directly correlated to our business prospects, financial performance or other traditional measures of value for the Company or its ordinary shares.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **Business Overview**

We primarily conduct our business through our subsidiary Zhejiang Zhengkang. Our core business focuses on providing systematic solutions to construction projects that require sophisticated piping systems. Leveraging our experience in the industry, we offer urban planners and real estate developers sophisticated pipe and fitting products and engineering expertise, enabling them to bring communities reliable and durable gas and water transmission systems. Our products are primarily sold in China, but are also exported and distributed in Europe, Africa and Southeast Asia. We have received numerous awards and recognitions domestically and internationally. Located within the Wenzhou Binhai Industrial Park, a national economic development zone, our facility occupies approximately five acres, consisting of business offices, manufacturing plants, a research and development center and storage facilities.

We specialize in designing and producing pipes and fittings such as double-press thin-walled stainless steel tubes and fittings, carbon steel tubes and fittings and single-press tubes and fittings. Focused on the innovation and expansion of our products to meet the specific needs of our clients, we believe that we are a leading manufacturer and engineer of high-performance stainless steel pipes. Our products offer a comprehensive suite of superior solutions for use in the construction and infrastructure industries. Our innovative products are used in a broad range of applications, including water and gas transmission within urban infrastructural development, residential housing development, food and beverage production, oil and gas exploitation, and agricultural irrigation. Since Zhejiang Zhengkang’s founding in 2001, we have developed an array of patented pipe and fitting products that have been marketed and distributed both domestically and internationally.

We promote our brand through our sales staff, distributors, trade shows, trade fairs, forums, direct communications with potential customers, business networks, and the internet. In addition, we tailor our products to the needs of our clients and provide our clients with competitive pricing to establish long-term business relationships. We take pride in the cutting-edge technology and superb quality of our products, which have received recognitions such as the ISO9001 Quality Management System Certification, ISO14001 Environmental Management System Certification, and National Industrial Stainless Steel Production License, among other awards and honors. Our products have been used in well-known facilities such as Olympic stadiums, multinational hotel chains, and mega-sized apartment complexes.

Safety, quality and productivity are three pillars of the operations of the PRC subsidiaries and the hallmarks of our success. In the past year, we experienced another year of outstanding safety performance while continuing to improve safety standard for our workforce. We also plan to transform our value proposition from strictly being a product supplier to a solution provider, aiming to deliver both high-quality products and complete engineering solutions to our clients. We have compiled a team of engineers and pipe network designers who will work closely with the manufacturing team to respond to clients’ special construction demands, create rapid prototypes of our solutions, and enhance the utility of our products based on clients’ feedback. This work flow could also significantly improve the efficiency and performance of our engineers.

##### **Recent Development**

Disposition of Wenzhou Zhenglong Ecommerce Co. Ltd

On September 30, 2020, the Company sold all its equity interests of Wenzhou Zhenglong Ecommerce Co. Ltd (“Zhenglong”) with the consideration of RMB 4,500,000 (approximately \$662,778). Zhenglong was incorporated on March 15, 2018 and was 90% owned by Zhejiang Zhengkang and 10% owned by a third-party individual. The operation of Zhenglong was at a very preliminary stage and had immaterial impact to the consolidated financials of the Company’s business.

#### September 2020 Registered Direct Offering

On September 25 and October 16, 2020, we closed a registered direct offering (the “September 2020 Offering”) with certain investors pursuant to certain securities purchase agreements, pursuant to which we issued convertible debentures (the “September 2020 Convertible Debentures”) in the aggregate principal amount of \$1,400,000, convertible into our ordinary shares. The initial closing of a September 2020 Convertible Debenture in an amount of \$100,000 occurred on September 25, 2020 and the second closing of September 2020 Convertible Debentures in an amount of \$1,300,000 occurred on October 16, 2020. We plan to use the proceeds for working capital and other general corporate purposes.

The September 2020 Convertible Debentures have an annual interest rate of 5% and a term of 12 months from the date of issuance, and are convertible into ordinary shares at 70% of the average closing price during the seven (7) consecutive trading days immediately preceding the date of conversion with a floor price of \$0.62 per share.

The September 2020 Offering was effected as a takedown off the Company’s shelf registration statement on Form F-3 (File No. 333-230860) filed by the Company on April 15, 2019, which was declared effective by the SEC on April 29, 2019, pursuant to a prospectus supplement filed with the SEC on September 22, 2020.

As of the date of this annual report, all of the outstanding principal and interest underlying the Convertible Debentures have been converted into a total of 1,394,253 ordinary shares.

#### December 2020 Registered Direct Offering

On December 23, 2020, we closed a registered direct offering (the “December 2020 Offering”) with certain investors pursuant to certain securities purchase agreements, pursuant to which we sold a total of 1,784,992 ordinary shares at a price of \$1.40 per share. We received gross proceeds in the amount of approximately \$2,499,000. We plan to use the proceeds for working capital and other general corporate purposes.

The December 2020 Offering was effected as a takedown off the Company’s shelf registration statement on Form F-3 (File No. 333-230860) filed by the Company on April 15, 2019, which was declared effective by the SEC on April 29, 2019, pursuant to a prospectus supplement filed with the SEC on December 22, 2020.

#### Consultancy Agreement

On February 15, 2021, the Company entered into a consultancy agreement with Dentoro Alliance LP, a company incorporated in the Republic of Ireland (the “Consultant”), pursuant to which the Consultant agreed to provide marketing services for the business development of xSigma Corporation including website development, protocol development and implementation, social media and community management, content creation and public relations management. In exchange for the Consultant’s services, the Company agreed to pay the Consultant initial compensation and performance earn-out. The initial compensation includes 250,000 ordinary shares of the Company, valued at \$2.00 per share with a total consideration of \$500,000, which were issued upon execution of such consultancy agreement, and warrants to purchase a total of 2,500,000 ordinary shares, which include (i) warrants to purchase 400,000 ordinary shares, exercisable at \$1.00 per share only when Company’s closing bid price is at least \$2.00 for ten consecutive trading days, (ii) warrants to purchase 1,000,000 ordinary shares, exercisable at \$1.50 per share only when Company’s closing bid price is above \$2.50 for seven consecutive trading days, (iii) warrants to purchase 500,000 ordinary shares, exercisable at \$2.00 per share only when Company’s closing bid price is at least \$3.50 for seven consecutive trading days, (iv) Warrants to purchase 600,000 ordinary shares, exercisable at \$2.50 per share, only when Company’s closing bid price is at least \$4.25 for seven consecutive trading days. All the warrants will expire nine months after issuance and may be permitted for cash or cashless exercise at Company’s option pursuant to a definitive warrant agreement. The performance earn-out includes 1,000,000 ordinary shares of the Company if xSigma Corporation generates \$2,500,000 or more in audited operating net income in any fiscal year of xSigma Corporation (the “Milestone Event”). This performance earn-out precludes the Consultant from earning any additional share based on the Milestone Event.

The warrants and ordinary shares, when issued pursuant to such consultancy agreement, will be issued in reliance upon the exemption from securities registration afforded by the provisions of Regulation S as promulgated by the SEC under the Securities Act of 1933, as amended (the “Securities Act”). The Company made the determination based upon the factors that the Consultant is not a “U.S. Person” as that term is defined in Rule 902(k) of Regulation S under the Securities Act, that the Consultant was acquiring our securities for investment purposes for its own respective account and not as nominees or agents, and not with a view to the resale or distribution thereof, and that the Consultant understood that the shares of our securities may not be sold or otherwise disposed of without registration under the Securities Act or an applicable exemption therefrom.



#### February 2021 Registered Direct Offering

On February 24, 2021, the Company closed a registered direct offering (the “February 2021 Offering”) of an aggregate investment of approximately \$4,600,000 pursuant to certain securities purchase agreement with several accredited investors dated February 22, 2021 for the issuance by the Company of (i) 1,295,770 ordinary shares of the Company; (ii) first registered investor warrants, with a term of five (5) years exercisable immediately upon issuance, to purchase an aggregate of up to 1,295,770 ordinary shares at an exercise price of \$4.00 per share, subject to customary adjustments thereunder; and (iii) second registered investor warrants, with a term of five (5) years exercisable immediately upon issuance, to purchase an aggregate of up to 1,295,770 ordinary shares at an exercise price of \$4.50 per share, subject to customary adjustments thereunder. Holders of the warrants may exercise them by paying the applicable cash exercise price or, if there is not an effective registration statement for the sale of the ordinary shares underlying such warrants at the time of exercise, by exercising on a cashless basis pursuant to the formula provided in the warrants.

The February 2021 Offering was pursuant to the Securities Act, pursuant to a prospectus supplement filed on February 23, 2021 to the Company’s currently effective registration statement on Form F-3 (File No. 333-230860), which was initially filed with the SEC on April 15, 2019 and was declared effective on April 29, 2019.

As of the date of this annual report, 270,696 warrants have been exercised and the Company has received \$964,779.

#### xSigma DeFi Project

In February 2021, xSigma Corporation launched its DeFi Protocol, a stablecoin exchange platform built on smart contract, which is available at <https://xsigma.fi>. Liquidity provider who provides liquidity for certain stable coin on the exchange is awarded a certain amount of SIG token, a governance token issued by the smart contract. The SIG holder is entitled to the commission revenue generated by the exchange and as the project founder xSigma Corporation is holding 30% all SIG token issued and outstanding. On April 2021, SIG was listed on Bittrex Global and it continues to be available for trading. The “SIG” Token is a governance token of xSigma DEX based on the Ethereum network. The xSigma DEX allows users to swap stablecoins, such as USDT, USDC and DAI. However, for the fiscal year ended September 30, 2021, although SIG is listed on Bittrex Global and has a public market price, due to SIG’s low trading volume and unstable market price, the Company decides not to recognize revenue for the token it owned until monetization of the token. . In addition, xSigma Corporation launched the second version, V2, of its Protocol on Binance Smart Chain (BSC) on November 30, 2021, which raised over \$1.5m of liquidity on the launch day. See “Item 3. Key Information – D. Risk Factors – Risks Related to the Stablecoin Exchange Platform.”

The xSigma R&D lab has also been working on its ETF-like decentralized platform but has decided to focus on its DeFi and NFT projects in the near future.

#### March 2021 Registered Direct Offering

On March 25, 2021, the Company closed a registered direct offering (the “March 2021 Offering”) of 4,000,000 ordinary shares of the Company for an aggregate gross proceeds of \$18,000,000 pursuant to certain securities purchase agreement with several accredited investors dated March 22, 2021.

The March 2021 Offering was pursuant to the Securities Act, pursuant to a prospectus supplement filed on March 23, 2021 to the Company’s currently effective registration statement on Form F-3 (File No. 333-230860), which was initially filed with the SEC on April 15, 2019 and was declared effective on April 29, 2019.

#### Amended and Restated Memorandum and Articles of Association

In March 2021, our Board of Directors passed a resolution to amend the Articles of Association of the Company to change the quorum for a meeting of shareholders to one third (33.3%) of the votes of the shares or class or series of shares entitled to vote on resolutions of shareholders. The Amended and Restated Memorandum and Articles of Association, incorporating the change to the quorum for a meeting of shareholders, became effective on March 30, 2021 upon the registration by the Registrar of Corporate Affairs of the British Virgin Islands.

## 2021 Equity Incentive Plan

In March 2021, our Board of Directors and shareholders of the Company holding an aggregate of 14,425,664 ordinary shares, representing approximately 57% of the total issued and outstanding as of March 25, 2021 took action by written consent to approve the 2021 equity incentive plan, which provides for an aggregate of four million two hundred thousand (4,200,000) ordinary shares to be available for awards to current or prospective employees, directors, advisors or consultants of the Company or its affiliates.

### Investment in CG Malta Holding Limited

xSigma Entertainment Limited is primarily engaged in the online gaming industry. Subsequent to the formation of xSigma Entertainment, xSigma Entertainment entered into a share subscription agreement with CG Malta Holding Limited (“CG Malta”), dated April 4, 2021, as amended on August 4, 2021 and December 27, 2021. On April 4, 2021, xSigma Entertainment acquired 12% interest in CG Malta for a total of \$15 million and agreed to subscribe to an additional number of ordinary shares in CG Malta for a total purchase price of \$35 million, which will guarantee xSigma Entertainment an additional 13% interest in CG Malta. In September 2021, xSigma Entertainment completed an investment of \$10 million in CG Malta, representing an additional 3.73% in CG Malta. xSigma Entertainment has further agreed to complete an investment of \$5 million in CG Malta no later than February 15, 2022 and an investment of \$5 million in CG Malta no later than March 15, 2022, and to sign a separate subscription agreement for the remaining investment no later than April 30, 2022. See “Item 3. Key Information – D. Risk Factors – Risks Related to Investment in CG Malta Holding Limited.”

CG Malta is a globally licensed sports betting and casino operator that launched MaximBet in Colorado on September 12, 2021. MaximBet is sports betting and casino website, available at MaximBet.com and through iOS and Android applications that will allow users to bet on sports and casino in the United States and around the world. Established in 2017, CG Malta is a rapidly-growing licensed sports betting and casino operator that is hyper-focused on capitalizing on the multi-billion dollar legalized sports betting and iGaming industry in the United States. The company was formed by top executives with more than 100 years of collective experience in the gaming industry and utilizes proprietary technology to build personalized consumer betting experiences. Harnessing the power of the Maxim men’s lifestyle brand, MaximBet gives players incredible real life and virtual access to celebrities, athletes and influencers, and lets guests truly live the Maxim lifestyle wherever they live and play. Colorado is the “first of many” state launches for MaximBet, CG Malta is also planning launches in Indiana, Iowa and New Jersey, which allows real-money online casino gaming. Additional target states for the early run on MaximBet sportsbook launches include Pennsylvania, Louisiana, Missouri and Mississippi. In addition, the company struck a market access deal in Arizona, but was not selected for one of the state’s limited online licenses. By law, MaximBet is allowed to open a retail sportsbook at Hoh-Dah Resort-Casino in Pinetop, Arizona. In the meantime of exploring this opportunity, MaximBet continues to look for Market Access in the state of Arizona.

### Engagement with Susan Kilkenny

On April 5, 2021, ZK International entered into a consulting agreement (the “Consulting Agreement”) with Susan Kilkenny (the “Consultant”), pursuant to which the Company engages the Consultant as “Senior Strategic Marketing Advisor”, and the Consultant will assist the Company in international marketing and branding services, building the “xSigma Entertainment” brand.

The Consultant shall receive from the Company 200,000 ordinary shares of the Company and stock options or warrants to purchase 50,000 shares of the Company upon execution of the Consulting Agreement, with the option exercisable at an exercise price of \$10.00 per share for three years from the date of issuance. The Consultant shall also receive, from the Company, options to purchase up to an additional 200,000 shares exercisable at an exercise price of \$10.00 for three years from the date of each issuance. The options shall be vested and issued on a quarterly basis starting from the third month of the engagement.

### August 2021 Registered Direct Offering

On August 26, 2021, the Company closed a registered direct offering (the “August 2021 Offering”) for the sale of convertible debentures (the “August 2021 Convertible Debentures”) in the aggregate principal amount of \$12,679,000, convertible into the Company’s ordinary shares, with no par value per share. The Company received gross proceeds of approximately \$12,679,000, before deducting offering expenses, and intends to use the net proceeds from the Registered Offering for working capital and other general working capital purpose. The Company may also use the proceeds to acquire certain assets that the Board of Directors may deem appropriate for the growth of the Company.

The August 2021 Convertible Debentures have an annual interest rate of 5% and a term of 12 months from the date of issuance, and are convertible into ordinary shares at 80% of the volume weighted average closing price during the seven (7) consecutive trading days immediately preceding the date of conversion (the “Conversion Price”), subject to a floor price of \$2.50 per share and a cap equals to 19.99% of the ordinary shares of the Company issued and outstanding as of the date of the Securities Purchase Agreements. The Company may issue up to 5,125,086 ordinary shares upon holders’ conversion of the August 2021 Convertible Debentures for an aggregate of \$13,312,950 in principal and interests. The actual number of ordinary shares as converted and issued will vary depending on the Conversion Price.

The securities were registered with the Securities and Exchange Commission (the “SEC”), under the Securities Act, pursuant to a prospectus supplement to the Company’s currently effective registration statement on Form F-3 (File No. 333-230860), which was initially filed with the U.S. Securities and Exchange Commission (the “SEC”) on April 15, 2019, and was declared effective on April 29, 2019.

#### Launch of MaximNFT

On November 29, 2021, xSigma Collectibles launched its new marketplace brand called MaximNFT (“MaximNFT”), available at [www.maximnft.com](http://www.maximnft.com). This exclusive NFT (Non-Fungible Token) marketplace is a partnership between xSigma Collectibles and the iconic men’s lifestyle brand Maxim. MaximNFT seeks to provide the best customer experience and innovative NFT solutions. It will allow customers to create and sell NFTs on various blockchains. Some of the collectibles will come with unique real-world experiences for buyers. Furthermore, MaximNFT will offer an innovative “NFT tokenization” feature that will allow customers to trade fractions of any NFT in the market. MaximNFT plans to focus on sports and celebrities’ collectibles, as well as gaming content. MaximNFT is betting on the rise of gaming and the utilization of NFT technology for in-game purchases and collectibles. Additionally, MaximNFT will combine its NFTs with new AR and VR technologies. MaximNFT’s partnered athletes will certify their own unique sets of 3D digital collectibles that will be exclusive to the platform. A host of sports superstars, including Matt Carpenter, Jerami Grant, Janoris Jenkins, Devon Kennard, Cris Cyborg and others will launch their exclusive NFT collections on the platform. See “Item 3. Key Information - D. Risk Factors - Risks Related to the Non-fungible Token (NFT) Marketplace.”

MaximNFT is built in partnership with Maxim magazine. Maxim is a lifestyle brand that has earned its position over its 25-year history. Maxim engages with more than 10 million men monthly through its website and social platforms. On July 12, 2021, xSigma Collectibles entered into a License Agreement (the “License Agreement”) with Maxim Inc. (“Maxim”), pursuant to which Maxim granted xSigma Collectibles an exclusive non-assignable license to use the trademarks of Maxim in connection with the promotion and operation of Maxim NFT. In addition, MaximNFT will be the exclusive seller of Maxim’s own NFTs. The License Agreement shall be for a period of five year (the “Initial Term”) and can be extended for three additional five-year periods (each an “Extension”) if xSigma Collectibles requests such Extension in writing at least 90 days, but no more than one year, before the expiration of the License Agreement. Maxim has the right to terminate the License Agreement immediately by giving xSigma Collectibles a notice of termination if xSigma Collectibles or its creditors on behalf of xSigma Collectibles institutes proceedings seeking relief under a bankruptcy act or any similar law. xSigma Collectibles has the right to terminate the License Agreement immediately by giving Maxim a notice of termination if (i) Maxim or its creditors on behalf of Maxim institutes proceedings seeking relief under a bankruptcy act or any similar law, or (ii) Maxim loses its rights to the licensed trademarks. If either party breaches its material obligations under the License Agreement, the other party has the right to terminate the License Agreement by giving the breaching party a notice of intention to terminate. Such termination will become effectively automatically and without further notice unless the breaching party cure such breach within 30 days after such notice. Additionally, Maxim has a right to terminate the License Agreement if xSigma Collectibles fails to comply with the approval, submission or quality requirements of the License Agreement or fails to adhere to any guidelines or specifications if such failure occurred despite reasonable efforts by xSigma Collectibles to comply with the applicable approval processes and/or guidelines and upon discovering such failure or being provided with notice of the failure, xSigma Collectibles promptly, but in no event longer than 10 days after discovery or notice, discontinued any non-compliant uses and takes reasonable steps to prevent future non-compliance. The License Agreement also contains covenants regarding the protection of Maxim’s intellectual property rights, approval and guideline on the use of the licensed trademarks, indemnification obligations of the Maxim and xSigma Collectibles with respect to its use of the licensed trademarks, and other customary provisions.

#### xSigma Trading

In October 2021, xSigma Corporation launched the beta version of its two flagship trading platforms, “xSigma Trading” for CFD trading and “xSigma Trader” for Crypto, Crypto Options and Crypto Derivatives, both platforms are under the brand name “xSigma Trading”.

xSigma Trading is a proprietary, robust, dynamic, interactive trading platform that focuses on equity, CFD, Crypto, Crypto Options and Crypto derivatives trading in global markets via its advanced, independent design and cutting-edge technology. Through xSigma Trading, all traders can participate in the CFD marketplace and engage in the trading of various unique products and offerings including some of the most restricted stock lists in the marketplace. In addition, the platform allows participants to diversify their crypto currency risk by using products like immediate and short-term crypto options and derivatives. In the near future, xSigma Trading plans to allow the offering of a large variety of crypto currencies and a marketplace for most new crypto listings to trade.

With the recent release of our Android application, xSigma Trading has several projects in development. It is planned that customers will have access to trade U.S. equities and Crypto through xSigma Trading's website version, as well as on both Android and iOS applications by April 2022.

xSigma Trading's services and products will be offered worldwide, excluding residents of the United States, and are tailored to both retail and institutional investors. Currently, xSigma Trading is open for beta testing with plans to launch live trading as soon as February 2022. xSigma Corporation is actively seeking partners that are licensed in the markets that xSigma Trading will be launching in and plans to apply for its own license in the future. See "Item 3. Key Information – D. Risk Factors – Risks Related to The Equity, Contract For Differences (CFD) and Crypto Trading Platform."

## **Industry Overview**

### **Stainless Steel Pipe**

We believe that we are in the early stages of four trends that are reshaping how water is accessed and managed by our community on a daily basis:

- As urbanization continues, cities in China will face tremendous challenges providing clean and safe water distribution in urban areas
- People are realizing that access to potable water in their home should not be a privilege, but a right. Many are now asking for improved water distribution systems.
- Stainless steel is considered the safest and most environmental-friendly material for clean water transmission, and these features are being recognized by the market.
- As water distribution systems are becoming more complex, water supply companies are seeking suppliers that not only supply products, but also engage in projects and are adaptable and responsive to ever-changing project demands.

These trends are creating an increasing number of new opportunities for organizations in the stainless steel pipe industry. We believe that the best opportunities are for the organizations that can continually make quality products and work with clients to solve problems and make improvements.

### **The Clean Water Supply Initiative**

With almost 20% of the world's population, but access to only 5% of the world's renewable freshwater resources, it is easy to understand the reason that water resource management has been a high social priority in China. The Ministry of Water Resources notes on its website that out of 663 cities in China, more than 400 are suffering from water shortages, with 110 classified as "severe". China's move to upgrade its water distribution infrastructure comes as it faces tremendous challenges from two directions. On one side, water quality remains an issue, while on the other side, reliable water distribution networks in many cities are still in developmental stage.

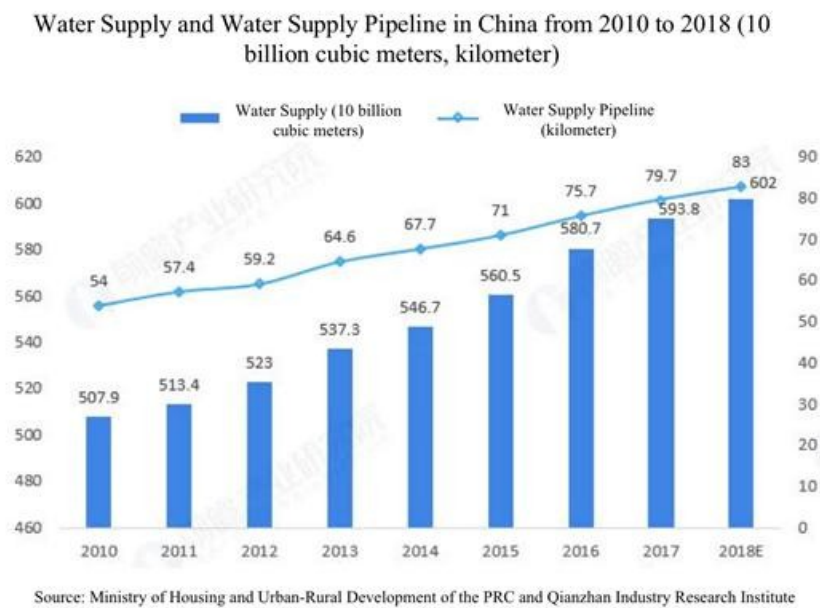
### **Increasing Investment Towards the Drinking Water Distribution Industry**

Like many other things, opportunities always come with challenges. There are both political and economic incentives in this field attracting investment from the government and private companies. As reported by Ministry of Environmental Protection (MEP), the quality of drinking water has significantly improved as well – 76% of water sources are safe for drinking compared to 53.4% in 2004. Despite these improvements in drinking water quality, the distribution networks across China still falls short as many cities still rely on decades-old pipe networks that are outdated and rusted.

The total water consumption in 2018 was 611 billion cubic meters, an increase of 1.1% over the previous year%, as illustrated below. Among them, domestic water consumption increased by 1.4%, industrial water consumption increased by 0.6%, agricultural water consumption increased by 1.1%, and ecological water supply increased by 3.8%.

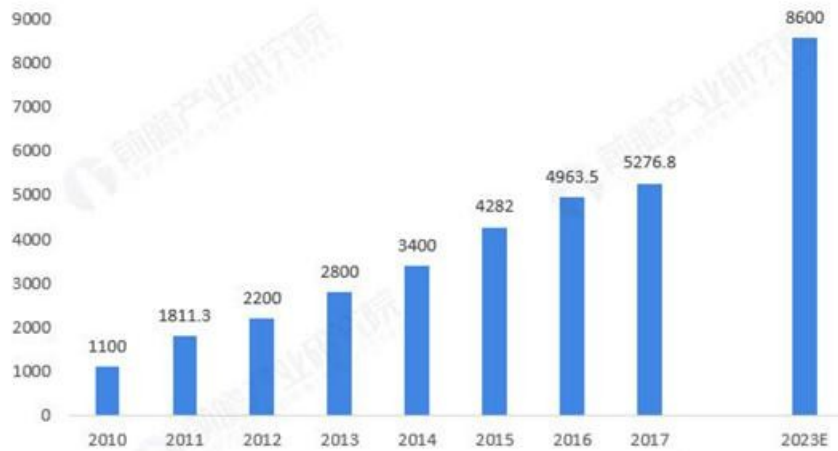


From 2010 to 2017, the length of China’s water supply pipelines and total water supply have increased year by year, as illustrated below. In 2017, the length of China’s water supply pipelines reached 797,000 kilometers, a year-on-year increase of 5.28%; China’s total water supply reached 59.38 billion cubic meters, a year-on-year increase of 2.26%.



The government and private capital have now turned their focus to updating cities' water distribution networks. According to Qianzhan Industry Research Institute, a Chinese research firm, investment from both the government and private companies in the water supply and distribution industry has grown significantly, as illustrated below:

Investment in Water Supply and Distribution Industry in China from 2010 to 2023 (10 billion RMB)



Source: Qianzhan Industry Research Institute

#### Generational Shift to Stainless Steel Pipe Network

To accommodate the enormous increase of clean water demand in urban cities, the distribution network has to be highly safe, reliable, durable, and environmentally friendly. Current pipe networks mainly consist of plastic (such as PPR and PVC), galvanized, and copper pipe, however, these materials don't meet the standards of drinking water transmission. In some developed countries, stainless steel had been widely accepted as the best material for such application; Germany and Japan, for instance, have 80% and 90% of their water pipe networks using stainless steel, respectively, while the percentage in China is around 3%. The popular acceptance of stainless steel is due to the following advantages over other materials:

**High Strength:** Stainless steel pipe's strength is 1.5 times higher than galvanized pipe, 2-3 times higher than copper pipe and 8-10 times higher than PPR pipe. Strength is an important factor and determines how shock resistant the pipe is.

**Anti-corrosion:** Stainless steel pipe is highly corrosion resistant. Even under high velocity water flow of 60m/s, stainless steel's corrosion rate is below 0.003mm/year. This ensures stainless steel has more than 70 years of service life. As comparison, other materials can only be used for 10-20 years.

**Low water resistance:** Due to the smoothness of the inner pipe wall, stainless steel has a 40% lower water resistance than that of carbon and copper pipe. Low water resistance reduces scale and bacterial deposits on the inner pipe wall, improving overall water quality and also reduces the amount of electricity consumed by pump stations by half, provided that all downstream pipes are stainless steel.

Low Leakage Rate: Benefitting from its high strength and anti-corrosion features, stainless steel pipes and fittings have extremely low leakage rates. According to *Best Practice: Water Leakage Prevention Controls* published by New York City, replacing current pipe networks with stainless steel components is a major priority to prevent water leakage, which can cause water waste, secondary disasters such as poor water flow, road collapse, and flooding of buildings and inundation. Tokyo, an example used in the *Best Practice* document, decreased its leakage rate from 20% in 1956 to 3% in 2010, mostly attributed to the usage of stainless steel pipes in its network.

(Source: [http://www1.nyc.gov/assets/globalpartners/downloads/pdf/Tokyo\\_Energy\\_Water%20Leakage%20Controls.pdf](http://www1.nyc.gov/assets/globalpartners/downloads/pdf/Tokyo_Energy_Water%20Leakage%20Controls.pdf))

Recyclable: Stainless steel is 100% recyclable, while plastic pipe can only be landfilled or incinerated, both causing pollution to environment.

In addition to the significant potential market within the urban development and residential real estate industries, we anticipate that the demand of our services and products from hotels within China will also become an important target market. Currently, through local distributors, our products are provided to global hotel brands such as Kempinski, Sheraton and Holiday Inn within China. During the past ten years, through contractors, distributors and wholesalers, our products have been used in more than three hundred three- to five-star hotels. As we have become one of the industry-leading stainless pipe manufacturers, we plan to work with end users such as multinational global chains from the initial planning stage, assisting in the design of their pipe transmission systems, to the post-sale stage, providing maintenance and repair services as part of their daily operation. China's hotel industry has experienced tremendous growth due to both inbound foreign travelers and domestic travelers, resulting in a \$44 billion business with 2.5 million hotel rooms. However, the hotel penetration rate is only approximately 4 rooms per 1,000 capita in China, which is relatively low compared to that of developed nations. It is anticipated that the hospitality industry in China could reach \$100 billion with 6.3 million rooms and 8 rooms per 1,000 capita. This therefore presents a significant opportunity for our company. As developers and travelers are becoming more sophisticated, the need for a sustainable and cost-effective solution is expected to increase. The quality of our products and our expertise servicing global hotel chains will provide us with a competitive advantage for future hotel construction projects.

### **Decentralized Finance (DeFi)**

Centralized exchanges have been the backbone of the cryptocurrency market for years. They offer fast settlement, high trading volume, and continually improving liquidity. However, there's a parallel world being built in the form of trustless protocols. DeFi and decentralized exchanges (DEX) aims to build a system which can work openly, securely, and in a modular manner, so that anyone can join it, use it, contribute to it, and upgrade it. The main idea is to recreate financial services and tools that are entirely on the blockchain, eliminating the need for banks or other third parties as intermediaries. Decentralized financial systems allow users to participate in blockchain markets and other alternative markets that have been developed on blockchain based networks. This makes it fast, inexpensive, and available to everyone. Further, the open-source nature of DeFi makes it transparent and trustless. It also enables cross-border payments, as blockchain markets have no borders. DeFi is a hot trend in the blockchain industry, growing from \$700 million by December 2019 to \$13 billion to December 2020, and to more than \$169 billion locked into the ecosystem as of September 2021 and the number continues to grow. xSigma Corporation's DeFi protocol launched at an opportune time in the blockchain industry.

### **Our Products and Services**

#### Stainless Steel Pipe

Our products focus primarily on the drinking water and gas transmission industries, while a minor portion of revenue is generated from the pharmaceutical, medical, food and beverage industries. Produced from different stages of our production line, our steel products can be broken down and sold as the following parts and components:

- **Steel Strip:** We manufacture carbon steel and stainless steel strip for sale to traditional manufacturers who are not in the pipe and fitting industry and for our own internal use in the production of our pipes and fittings. Our ability to produce steel strip in-house allows us to ensure the quality and consistency of our pipe and fitting products.
- **Steel Pipe:** Our carbon steel and stainless steel pipes are primarily used in water and gas transmission systems. Carbon steel pipes are generally stronger than stainless steel, and therefore are typically used in applications that require high-pressure resistance, such as gas transmission and fire hydrants. Stainless steel pipes, in contrast, are more corrosion resistant and are commonly applied in cases that require clean transmission, such as drinking water and pharmaceutical liquid transmission.

- Light Gauge Stainless Steel Pipe (LGSSP): We have production lines specifically designed to produce LGSSP, which have 40% thinner walls than regular stainless steel pipes. The reduction in the thickness of the pipe wall leads to a reduced manufacturing cost and weight and enhances installation flexibility due to its smaller size. LGSSP is an affordable option for household plumbing systems that require easy installation.
- Pipe Connections and Fittings: We manufacture high-quality pipe connections and fittings that are used to connect pipes. Pipe fittings have wide applications for any piping and plumbing systems in both industrial and commercial applications. Fittings allow pipes to be joined or installed in the appropriate place and terminated or closed where necessary. We produce fittings in various shapes and sizes, with more than 10,000 different specifications. As most leakages are caused by misalignment or improper manufacture of connections and fittings, pipe connections and fittings, being the most crucial components of any piping system, require extremely precise production procedures. Depending on the purposes served, our pipe fittings can be categorized as follows:
  - Pipe fittings to extend or terminate pipe runs: couplings, adapters, unions, caps and plugs pipe.
  - Fittings to change a pipe's direction: elbows, three-way fittings
  - Pipe fittings to connect two or more pipes: tees, cross, side-inlet elbows, wyes
  - Pipe fittings to change pipe size: reducers, bushings, couplings
  - Pipe fitting tools: pipe fasteners
  - Pipe flanges

Our connections and fittings segment has grown significantly during 2019. The increased proportion of our revenue generated by the connections and fittings segment reflects a shift in our manufacturing and marketing priority to this segment. We have shifted our focus to connections and fittings because we could offer more value-add to our products than pipe or strip. More importantly, providing quality products in this segment is more likely to help us retain clients as consistency and quality of joints and fittings plays a big role in reducing maintenance costs and leakage rates for the customers.

Pipe production is very competitive in China. In order to distinguish ourselves from the other competitors in the industry, we have employed a team of engineers specializing in network design, CAD drawing, and special prototyping of piping systems to help our customers create a systematic solution based on their piping needs.

#### xSigma DeFi Project

xSigma Corporation is a blockchain R&D lab that explores decentralized finance (“DeFi”) and other blockchain technologies and applications. The ultimate objective of xSigma Corporation is to build an ecosystem of products for finance, blockchain and emerging technology markets.

On February 24, 2021, xSigma Corporation launched its DeFi Protocol, a stablecoin exchange platform built on smart contract, which is available at <https://xsigma.fi>. Liquidity provider who provides liquidity for certain stablecoin on the exchange is awarded a certain amount of SIG token, a governance token issued by the smart contract. “Stablecoin” means crypto assets designed to minimize price volatility. A stablecoin is designed to track the price of an underlying asset such as fiat money or an exchange-traded commodity (such as precious metals or industrial metals). Stablecoins can be backed by fiat money or other crypto assets. The SIG holder is entitled to the commission revenue generated by the exchange and as the project founder xSigma Corporation is holding 30% all SIG token issued and outstanding. On April 2021, SIG was listed on Bittrex Global and it continues to be available for trading. The “SIG” Token is a governance token of xSigma DEX based on the Ethereum network. The xSigma DEX allows users to swap stablecoins, such as USDT, USDC and DAI. However, for the fiscal year ended September 30, 2021, although SIG is listed on Bittrex Global and has a public market price, due to SIG's low trading volume and unstable market price, the Company decides not to recognize revenue for the token it owned until monetization of the token. . In addition, xSigma Corporation launched the second version, V2, of its Protocol on Binance Smart Chain (BSC) on November 30, 2021, which raised over \$1.5m of liquidity on the launch day. See “Item 3. Key Information – D. Risk Factors – Risks Related to the Stablecoin Exchange Platform.”

The xSigma R&D lab has also been working on its ETF-like decentralized platform but has decided to focus on its DeFi and NFT projects in the near future.



### Sales Channels and Long-Term Opportunities

**Extensive Sales Network within China.** To market our products and brand to other regions within China, we have set up 48 sales representative posts in major cities across China by assigning our sales and engineer specialists to those regions to establish long-term business relationship with the local water and gas supply companies. In addition, we also have worked with 156 distributors across China to serve their local customers. This extensive sales network ensures our products and services are accessible in all of the cities within in 30 of the 34 provinces and territories in China.

**Strategic Partners.** There're many water and gas transmission companies in China, and it would be very time-consuming if we negotiate with each of them one by one on the terms of our order contract. To better market our products to these utility companies, we have invited some of them to conduct on-site visit to check our production facility, quality control protocols, production capability, and research and development capacity to demonstrate our value as a supplier compared to other competitors on the market. Once approved by these utility companies' internal assessment teams, we will be pre-approved as their "qualified supplier", which would exempt our company from their production inspection process when they place orders. We have been pre-approved as "qualified supplier" by the following companies:

- Towngas Investment Group
- Changsha Water Investment Group
- Shengzhen Water Supply Group
- Shanghai SMI Water Group
- Sichuan SPT Energy Group
- Min Sheng Energy Group

All of these companies present us with potential long term opportunities for large scale project, which would require a large volume of piping products over multiple years. In addition, we would be able to advantage of their business network. We currently do not directly supply to some of our partners and instead we rely on local distributors and wholesalers to deal with specific projects due to the complex of each project. However, to provide goodwill and value-add to our customers in addition to our quality products, we prioritize the production of their orders and plan to offer them with engineering advisory and post-sales maintenance services in the future. We also have staffed experienced engineers available to resolve any installation or maintenance issues that these end users may encounter.

### Customers and Suppliers

#### Customers

For carbon and stainless steel pipe products, we principally target our marketing efforts toward those clients in the water and gas supply industries which require high quality specialty steel pipes and fittings with precise "just-in-time" delivery as most of our clients do not carry inventory, technical consultancy or post-sale support. Our enhanced product quality and delivery capabilities, as well as our emphasis on customer oriented technical support and product planning, are critical factors in our ability to serve this segment of the market. In the near future, as we begin to transform our business to both a product supplier and a solution provider, we expect that customers will enjoy using our products and working with engineers since our integrated approach is expected to help our customers reduce planning, installation and maintenance costs.

We find that primarily sold through distributors, our products are mostly embraced by two categories of end users: those within the water transmission industry and those within the gas transmission. Our clients scatter in diverse industries including, but not limited to, water treatment, real estate development, hospitality, hospital, gas supply, and school. We consider our major customers in each period to be those customers that accounted for more than 10% of overall revenues in such period. We had no major customer during the fiscal year ended September 30, 2021, 2020 and 2019.

*Suppliers*

We consider our major vendors in each period to be those vendors that accounted for more than 10% of overall purchases in such period. We had three major vendors during the fiscal year ended September 30, 2021, who collectively accounted for 72.52% of total purchases. We had four major vendors during the fiscal year ended September 30, 2020, who collectively accounted for 70.10% of total purchase. We had two major vendors during the fiscal years ended September 30, 2019, who collectively accounted for 75.78% of total purchase. We purchase from a variety of suppliers and believe these raw materials are widely available. If we were unable to purchase from our primary suppliers, we do not expect we would face difficulties in locating another supplier at substantially the same price. We have secure and efficient access to all the raw materials necessary for the production of our products. We believe our relationships with the suppliers of these raw materials are strong. While the prices of such raw materials may vary greatly from time to time, we believe we could hedge such risk by adjusting our price or absorb the higher cost at times if necessary.

**Research and Development**

We are committed to researching and developing stainless steel products for use in all industries that need water and gas transmission systems. We believe scientific and technological innovations will help us achieve our long-term strategic objectives. The research and development efforts are an integral part of the operations of the PRC subsidiaries and the crux of our competitive advantage and differentiation strategy.

The Research and Development team consists of dedicated researchers and analysts focusing on mechanical design, mechatronics, CAD design, mold design and welding. Quality control is an important aspect of the team's work and ensuring quality at every stage of the process has been a key driver in maintaining and developing brand value for the Company.

**Our Intellectual Property**

We rely on our technology patents to protect our domestic business interests and ensure our competitive position in our industry. The issued patents we hold are as follows:

No.	Patent Name	Owner	Category	Patent Code.	Authorization Date
1.	Anti vibration groove	Zhejiang Zhengkang	Design Patent	2016303899813	12/21/2016
2.	Anti vibration groove connector for pipeline	Zhejiang Zhengkang	Utility Models Patent	2016208805658	01/18/2017
3.	High strength tensile mechanical compression type pipe joint	Zhejiang Zhengkang	Utility Models Patent	2016204183044	09/21/2016
4.	Tensile elastic ring	Zhejiang Zhengkang	Utility Models Patent	2016204163036	09/21/2016
5.	Special joint for gas	Zhejiang Zhengkang	Utility Models Patent	2016204209275	09/21/2016
6.	Self sealing ring	Zhejiang Zhengkang	Utility Models Patent	2016204162993	11/23/2016
7.	Warm jacket (45 degree elbow)	Zhejiang Zhengkang	Design Patent	2016300576444	07/20/2016
8.	Articulated bellows	Zhejiang Zhengkang	Utility Models Patent	2016201606371	07/27/2016
9.	Stainless steel pipe warm jacket	Zhejiang Zhengkang	Utility Models Patent	2016201606102	07/27/2016
10.	A new type of metal pipe fitting	Zhejiang Zhengkang	Utility Models Patent	2016201585303	07/27/2016
11.	Three way warm jacket	Zhejiang Zhengkang	Design Patent	2016300576459	07/27/2016
12.	Warm jacket (90 degree elbow)	Zhejiang Zhengkang	Design Patent	2016300576463	07/27/2016
13.	Direct thermal cover	Zhejiang Zhengkang	Design Patent	2016300576482	09/07/2016
14.	Thin wall compression type metal pipe fitting type O sealing ring	Zhejiang Zhengkang	Utility Models Patent	2015202071764	08/05/2015
15.	Internal expansion type stainless steel pipe mouth shaping device	Zhejiang Zhengkang	Utility Models Patent	2015202074989	08/05/2015
16.	Full automatic stainless steel pipe high pressure water pressure testing machine	Zhejiang Zhengkang	Utility Models Patent	2015202070687	08/05/2015
17.	An elbow pipe automatic flat head machine	Zhejiang Zhengkang	Utility Models Patent	2015202072894	08/05/2015
18.	Full automatic steel pipe air tightness detecting machine	Zhejiang Zhengkang	Invention Patent	2014100189333	03/02/2016
19.	Full automatic steel pipe air tightness detection device	Zhejiang Zhengkang	Utility Models Patent	2014200253551	06/25/2014
20.	Loading device of full automatic steel pipe air tightness testing machine	Zhejiang Zhengkang	Utility Models Patent	2014200262086	06/25/2014
21.	Material distributing device of full automatic steel pipe air tightness detecting machine	Zhejiang Zhengkang	Utility Models Patent	2014200261789	06/25/2014
22.	Multi-station semiautomatic fitting former	Zhejiang Zhengkang	Invention Patent	201310251507X	08/26/2015
23.	Double-cone double-clamp metal pipeline connecting piece	Zhejiang Zhengkang	Utility Models Patent	2013203622036	12/18/2013
24.	Semi-automatic multi-station pipe fitting forming machine	Zhejiang Zhengkang	Utility Models Patent	2013203622017	12/18/2013
25.	Convex-ring-free self-locking and hermetic-connecting device for thin-walled stainless steel pipe	Zhejiang Zhengkang	Utility Models Patent	2011202296878	01/11/2012
26.	LGSSP connecting piece without bulge loop and adopting self-locking sealing	Zhejiang Zhengkang	Utility Models Patent	2011202296806	02/15/2012
27.	Pipe Joint	Zhejiang Zhengkang	Invention Patent	2006100289799	05/12/2010
28.	Convex pipe joint	Zhejiang Zhengkang	Invention Patent	2008101079922	08/31/2011
29.	Buckle type pipe fitting with warning device	Zhejiang Zhengkang	Utility Models Patent	2016214861265	08/18/2017
30.	Electric crimping device for scissors-type clamping pipe fittings	Zhejiang Zhengkang	Utility Models Patent	2018213445007	04/12/2019
31.	Electric crimping device for three-lobed clamping tube fittings	Zhejiang Zhengkang	Utility Models Patent	2018213444860	04/23/2019
32.	Multi-function pass and stop rule	Zhejiang Zhengkang	Utility Models Patent	2019211662742	01/24/2020
33.	Connection structure of pipe fittings	Zhejiang Zhengkang	Utility Models Patent	201921232714X	04/14/2020
34.	Pipe fitting seal ring assembly machine	Zhejiang Zhengkang	Utility Models Patent	2019207361973	02/21/2020
35.	Pipe fitting air tightness testing machine	Zhejiang Zhengkang	Utility Models Patent	2019210584233	07/08/2019
36.	Sealing ring reclaiming assembly mechanism	Zhejiang Zhengkang	Utility Models Patent	2019207434230	02/18/2020
37.	Sealing ring device	Zhejiang Zhengkang	Utility Models Patent	2019207434851	01/21/2020
38.	Automatic flat end machine for elbow pipe fittings	Zhejiang Zhengkang	Utility Models Patent	200910097809X	09/08/2010
39.	Air tightness detecting machine for pipe fittings	Zhejiang Zhengkang	Utility Models Patent	2019210584233	01/14/2020
40.	Manipulator for pipe clamping	Zhejiang Zhengkang	Utility Models Patent	2019207361367	02/21/2020
41.	Inclined seat valve	Zhejiang Zhengkang	Design Patent	2021301326663	07/09/2021
42.	Connection structure of pipe fittings	Zhejiang Zhengkang	Utility Models Patent	2021203239240	10/15/2021
43.	Water swelling forming device	Zhejiang Zhengkang	Utility Models Patent	2021203235860	10/15/2021
44.	Inclined seat valve	Zhejiang Zhengkang	Utility Models Patent	202120323531X	11/09/2021

**Description of Chinese Patent Categories:**

**Invention patents**

As in Europe, this type of patent is granted for new technical solutions or improvements to a product or a process with practical applicability.

*Utility patents*








Granted for new technical solutions or improvement with a lower degree of ‘inventiveness’ than Invention patents, i.e., products with a new shape or structural physical features. Utility Models are also sometimes called ‘Utility Patents’ or ‘Petty Patents’ in other countries.

*Design patents*

Granted for innovations in the external features of a product, encompassing any of the following features: Shape; Pattern; Shape and Pattern; Shape and Color; Shape, Pattern and Color. Innovations must also be “fit for industrial application” (i.e., specifically usable by industry, producible in batches, etc.).

**Trademarks**

In addition, we have the right to use the following trademark registrations issued in the PRC, all of which are held by the Zhejiang Zhengkang:

No.	Registrant	Trademark	Category	Certificate Code	Valid Through	Application Area
1	Zhejiang Zhengkang		6	4482840	2008.2.14-2028.2.13	Metal Sheet and Plate, Metal Door Panel, Metal Binding Strap, Metal Flange, Metal Signboard, Metal Electrode
2	Zhejiang Zhengkang		6	5584098	2009.6.28-2029.6.27	Metal Sheet and Plate, Metal Pipe, Metal Partition Board, Metal Door, Metal Lock, Metal Band Hoop, Metal Screws, Metal Signboard, Metal Flange, Metal Electrode
3	Zhejiang Zhengkang		6	5584100	2009.10.21-2029.10.20	Metal Sheet and Plate, Metal Partition Board, Metal Binding Strap, Metal Screws, Metal Signboard, Metal Stretcher, Metal Electrode
4	Zhejiang Zhengkang		11	5584101	2009.8.14-2029.8.13	Faucet, Pipe Tap, Water Distribution Equipment, Pipeline of Medical Equipment, Plumbing Pipe and Fitting, Water Drainage Equipment, Mixer Tap, Running Water Coordination Equipment
5	Zhejiang Zhengkang		6	5646751	2009.7.14-2029.7.13	Metal Pipe, Steel Bar, Metal Signboard, Railway Metal Material, Metal Clip (for cable or pipe), Metal Mold, Metal Electrode, Iron Ores, Bronze Artwork, Metal Mooring Bollards
6	Zhejiang Zhengkang		41	7034175	2010.10.14-2030.10.13	School (Education), Training, Meeting Arrangement, Book Publication, Club Service (Entertainment or Education), TV Program Production, Lottery
7	Zhejiang Zhengkang		39	7034176	2010.10.14-2020.10.13	Transportation, Marine Transportation, Truck Transportation, Air Transportation, Car Rental, Storage, Express Delivery, Travelling Agency, Pipe Transportation
8	Zhejiang Zhengkang		28	7034178	2010.12.28-2030.12.27	Christmas Tree with Synthetic Material, Fishing Tackle, Fishing Pole, Swimming Pool

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9	Zhejiang Zhengkang		20	7034179	2010.10.28-2030.10.27	Plastic Elbow Pipe, Glass Mirror, Non-metal Plate, Drinking Straw, Non-metal Furniture Component, Non-metal Door Component
10	Zhejiang Zhengkang		18	7034180	2011.06.07-2021.06.06	Leather Bag, Handbag, Travelling Coat Pocket, Umbrella, Umbrella Cover, Crutch, Leather Belt, Sausage Casing
11	Zhejiang Zhengkang		17	7034181	2010.11.14-2030.11.13	Synthetic Rubber, Synthetic Resin, Asbestos Sole, Electro Insulating Material, Package Rubber Bag, Firehose, Latex, Plexiglass
12	Zhejiang Zhengkang		12	7034182	2010.6.14-2030.6.13	Railway Carriage Couplings, Air Pump, Small-size Vehicle, Bicycle, Aerial Conveyer, Luggage Carrier, Sleigh Car, Vehicle Tire, Ferry
13	Zhejiang Zhengkang		8	7034183	2010.10.7-2030.10.6	Abrasive Tool, Garden Tool, Fish Spear, Shaver, Drills, Threader, Sculpting Tool, Scissor, Tableware
14	Zhejiang Zhengkang		42	7086004	2011.2.21-2031.2.20	Land Vehicle, Meteorological Info, Vehicle Performance Inspection, Package Design, Interior Design
15	Zhejiang Zhengkang		7	7086005	2010.7.14-2030.7.13	Vehicle Engine Radiator Tube, Machine Tool, Steam Elbow Pipe, Die-casting Mold, Sewing Machine, Leather-working Machine, Agricultural Machinery
16	Zhejiang Zhengkang		45	7086006	2010.8.7-2030.8.6	Security Surveillance, Security Consulting, Dress Rental, Lock Pick, Firefighting, Intellectual Property Consulting, IP License, Software License
17	Zhejiang Zhengkang		36	7086007	2010.9.7-2030.9.6	Life Insurance, Insurance Consulting, Financial Loan, Security Trade Information, Artwork Appraisal, Guarantee, Charitable Fund Raising, Pawn Brokerage, Credit Card Service
18	Zhejiang Zhengkang		6	7089246	2010.7.7-2030.7.6	Metal Sheet and Plate, Metal Water Pipe, Metal Door Panel, Metal Valve, Metal Lock, Metal Band Hoop, Metal Screws, Metal Signboard, Metal Flange, Metal Pipe
19	Zhejiang Zhengkang		6	7154484	2010.7.21-2030.7.20	Metal Sheet and Plate, Metal Water pipe, Metal Door Panel, Metal Valve, Metal Lock, Metal Band Hoop, Metal Screws, Metal Signboard, Metal Flange, Metal Pipe
20	Zhejiang Zhengkang		6	7287954	2010.12.21-2030.12.20	Metal Sheet and Plate, Metal Water pipe, Metal Door Panel, Metal Lock, Metal Band Hoop, Metal Screws, Metal Signboard, Metal Flange, Metal Pipe

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21	Zhejiang Zhengkang		1	13711670	2015.6.21-2025.6.20	Industrial Graphite, Oxidation Shaft, Photographic Paper, Fire Extinguishing Composition, Flux, Metal Return Agent
22	Zhejiang Zhengkang		21	13716104	2015.8.21-2025.8.20	Toothbrush, Cosmetics, Water Tank (Indoor Aquarium), Trapping Insects
23	Zhejiang Zhengkang		26	13712073	2015.8.21-2025.8.20	Wigs, Needles, Garment Pads, Repaired Textiles with Heat-Bonded Patches, Linen Markers with Numbers
24	Zhejiang Zhengkang		40	13716264	2015.4.7-2025.4.6	Metal Plating, Wood Making, Optical Lens Grinding, Firing Pottery
25	Zhejiang Zhengkang		5	13711759	2015.7.21-2025.7.20	Dental Abrasive Powder
26	Zhejiang Zhengkang		6	14497890	2015.8.7-2025.8.6	Metal Water pipe, Metal Door, Metal Binding Strap, Metal Screws, Metal Flange, Metal Sealing Cap, Metal Signboard, Metal Electrode
27	Zhejiang Zhengkang		9	13715937	2015.8.21-2025.8.20	Signal Light, Movie Camera, Water Meter, Optical Product, Safety Helmet
28	Zhejiang Zhengkang		16	13711975	2016.5.7-2026.5.6	Lithographic Crafts
29	Wenzhou Zhengfeng		6	1581510	2001.6.7-2031.6.6	Sheet Metal and Sheet Metal, Steel Strip, Metal Strip For Packaging Or Bundling, Ordinary Metal Wire, Iron Strip, Stainless Steel, Steel Strip, Ordinary Metal Hinge, Metal Rod
30	Zhejiang Zhengkang		38	34035720	2019.7.21-2029.7.20	Services for radio or television programmes, Communication service
31	ZK International		38	34041789	2.19.7.21-2029.7.20	Services for radio or television programmes, Communication service
32	Zhejiang Zhengkang		6	40382691	2020.12.7-2030.12.6	Sheet Metal and Sheet Metal, Steel Strip, Metal Strip For Packaging Or Bundling, Ordinary Metal Wire, Iron Strip, Stainless Steel, Steel Strip, Ordinary Metal Hinge, Metal Rod
33	ZK International		6	40391753	2020.06.21-2030.6.20	Sheet Metal and Sheet Metal, Steel Strip, Metal Strip For Packaging Or Bundling, Ordinary Metal Wire, Iron Strip, Stainless Steel, Steel Strip, Ordinary Metal Hinge, Metal Rod
34	ZK International		7	34035677	2020.05.21-2030.05.20	Vehicle Engine Radiator Tube, Machine Tool, Steam Elbow Pipe, Die-casting Mold, Sewing Machine, Leather-working Machine, Agricultural Machinery

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35	ZK International	ZHENGKANG	7	34760512	2020.11.7-2030.11.6	Vehicle Engine Radiator Tube, Machine Tool, Steam Elbow Pipe, Die-casting Mold, Sewing Machine, Leather-working Machine, Agricultural Machinery
36	ZK International	正康	7	34769021	2020.11.7-2030.11.6	Vehicle Engine Radiator Tube, Machine Tool, Steam Elbow Pipe, Die-casting Mold, Sewing Machine, Leather-working Machine, Agricultural Machinery
37	ZK International	正康	7	38109372	2020.04.28-2030.04.27	Vehicle Engine Radiator Tube, Machine Tool, Steam Elbow Pipe, Die-casting Mold, Sewing Machine, Leather-working Machine, Agricultural Machinery
38	ZK International	CHNCON	7	40363657	2020.06.07-2030.06.06	Vehicle Engine Radiator Tube, Machine Tool, Steam Elbow Pipe, Die-casting Mold, Sewing Machine, Leather-working Machine, Agricultural Machinery
39	ZK International		7	40370967	2020.07.21-2030.07.20	Vehicle Engine Radiator Tube, Machine Tool, Steam Elbow Pipe, Die-casting Mold, Sewing Machine, Leather-working Machine, Agricultural Machinery
40	ZK International	正康	9	34026952	2019.11.28-2029.11.27	Signal Light, Movie Camera, Water Meter, Optical Product, Safety Helmet
41	ZK International	ZHENGKANG	9	34044703	2019.11.28-2029.11.27	Signal Light, Movie Camera, Water Meter, Optical Product, Safety Helmet
42	ZK International	ZHENGKANG	11	34037602	2020 . 05.28-2030.05.27	Faucet, Pipe Tap, Water Distribution Equipment, Pipeline of Medical Equipment, Plumbing Pipe and Fitting, Water Drainage Equipment, Mixer Tap, Running Water Coordination Equipment
43	ZK International	CHNCON	6	30 2020 240 957.5/06	2021 . 1 . 14-2031.1.13	Metal material

**Chinese Laws and Regulations**

**Regulation on Product Liability**

Manufacturers and vendors of defective products in the PRC may incur liability for losses and injuries caused by such products. Under the General Principles of the Civil Laws of the PRC, which became effective on January 1, 1987 and were amended on August 27, 2009, manufacturers or retailers of defective products that cause property damage or physical injury to any person will be subject to civil liability.

In 1993, the General Principles of the PRC Civil Law were supplemented by the Product Quality Law of the PRC (as amended in 2000 and 2009) and the Law of the PRC on the Protection of the Rights and Interests of Consumers (as amended in 2009), which were enacted to protect the legitimate rights and interests of end-users and consumers and to strengthen the supervision and control of the quality of products. If our products are defective and cause any personal injuries or damage to assets, our customers have the right to claim compensation from us.

The PRC Tort Law was promulgated on December 26, 2009 and became effective from July 1, 2010. Under this law, a patient who suffers injury from a defective medical device can claim damages from either the medical institution or the manufacturer of the defective device. If our pipe products and installation and construction services injure a patient, and if the patient claims damages from the medical institution, the medical institution is entitled to claim repayment from us. Pursuant to the PRC Tort Law, where a personal injury is caused by a tort, the tortfeasor shall compensate the victim for the reasonable costs and expenses for treatment and rehabilitation, as well as death compensation and funeral costs and expenses if it causes the death of the victim. There is no cap on monetary damages the plaintiffs may seek under the PRC Tort Law.

#### **Regulation on Foreign Exchange Control and Registration of Offshore Investment by PRC Residents**

See Item 10. Additional Information – D. Exchange Controls.

#### **Regulation on Dividend Distributions**

Our PRC subsidiary, Wenzhou Weijia, is a wholly foreign-owned enterprise under the PRC law.

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the Company Law of the PRC, as amended in 2004, 2005 and 2013, the Wholly Foreign-owned Enterprise Law promulgated in 1986 and amended in 2000 and 2016 and its implementation regulations promulgated in 1990 and subsequently amended in 2001 and 2014, the Equity Joint Venture Law of the PRC promulgated in 1979 and subsequently amended in 1990, 2001 and 2016 and its implementation regulations promulgated in 1983 and subsequently amended in 1986, 1987, 2001, 2011 and 2014, and the Cooperative Joint Venture Law of the PRC promulgated in 1988 and amended in 2000 and 2017 and its implementation regulations promulgated in 1995 and amended in 2014 and 2017. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as statutory reserve funds at least 10% of its after-tax profit, until the cumulative amount of such reserve funds reaches 50% of its registered capital unless laws regarding foreign investment provide otherwise. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

#### **Restriction on Foreign Investment**

The Special Administrative Measures for Entrance of Foreign Investment (Negative List) (2018 Version), or the Negative List, which was promulgated jointly by the Ministry of Commerce and the National Development and Reform Commission on June 28, 2018 and became effective on July 28, 2018, replaced and partly abolished the Guidance Catalogue of Industries for Foreign Investment (2017 Revision) regulating the access of foreign investors to China. Pursuant to the Negative List, foreign investors should refrain from making investing in any of prohibited sectors specified in the Negative List, and foreign investors are required to obtain the permit for access to other sectors that are listed in the Negative List but not classified as “prohibited”.

The PRC subsidiaries’ primary market is the hardware manufacturing industry. We are not engaged in any activities placing us in the encouraged, restricted or prohibited categories and so it could be inferred that we are engaged in a permitted industry for foreign investment. Such a designation offers businesses certain advantages. For example, businesses engaged in permitted industries:

- are not subject to restrictions on foreign investment, and, as such, foreigners can own a majority interest in Sino-foreign joint ventures or establish wholly-owned foreign enterprises in the PRC;
- provided such business has total investment of less than \$100 million, are subject to regional (not central) government examination and approval which are generally more efficient and less time-consuming. Our current total investment is less than \$100 million.

The National Development and Reform Commission and MOFCOM periodically jointly revise the Foreign Investment Industrial Guidance Catalogue. As such, there is a possibility that the PRC subsidiaries’ business may fall outside the scope of the definition of a permitted industry in the future. Should this occur, we would no longer benefit from such designation.



On January 19, 2015, China's Ministry of Commerce issued a draft Foreign Investment Law aiming to, upon its enactment, replace the three existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. At the same time, the Ministry of Commerce published an accompanying explanatory note of the draft Foreign Investment Law, which contains important information about the draft Foreign Investment Law, including its drafting philosophy and principles, main table of contents, plans to transition to the new legal regime and treatment of business in China controlled by foreign invested enterprises. The draft Foreign Investment Law proposes an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments and, when implemented, may have a significant impact on businesses in China controlled by foreign-invested enterprises primarily through contractual arrangements, such as our business. Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of "actual control" in determining whether a company is considered a foreign-invested enterprise. Under the draft Foreign Investment Law, variable interest entities would also be deemed as foreign-invested enterprises, if they are ultimately "controlled" by foreign investors, and be subject to restrictions on foreign investments. The Ministry of Commerce solicited comments on the draft Foreign Investment Law in 2015, but no new draft has been published since then.

It is still uncertain when the draft would be signed into law and whether the final version would have any substantial changes from this draft. When the Foreign Investment Law becomes effective, the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations, will be abolished.

Recently, the Chinese government has also been actively guiding the foreign investment to promote domestic economic development and industrial upgrading. To this end, the State Council issued the Circular on Several Measures for Actively and Effectively Utilizing Foreign Investment to Promote High-quality Economic Development (Circular 19, 2018), which guides foreign investment to invest more in modern agriculture and ecological construction, among other industries. The key areas, such as optimizing tax policy, supporting innovation and encouraging mergers and acquisitions, are potentially good for the related industries in which the PRC subsidiaries are involved, but the specific measures need to be refined and clarified, and the sustainability of the policy remains uncertain.

According to the current Special Administrative Measures for Entrance of Foreign Investment, the PRC subsidiaries' business does not fall in any prohibited or restricted industries. If China's Ministry of Commerce adopts a list as same as the Catalogue along with the draft, the draft will have very limited impact on our business, if any. The probability that our business will be classified as prohibited or restricted industry is very low. However, If China's Ministry of Commerce adopts a list by our business is prohibited or restricted, and it treats our business in China as foreign investment by deciding our actual controller is Mr. Jiancong Huang who is not a Chinese citizen, we may face certain restrictions or even be prohibited to conduct business in China.

#### **Regulations on Offshore Parent Holding Companies' Direct Investment in and Loans to Their PRC Subsidiaries**

Loans made by foreign investors as shareholders in foreign invested enterprises established in China are considered to be foreign debts and are mainly regulated by the Regulation of the People's Republic of China on Foreign Exchange Administration, the Interim Provisions on the Management of Foreign Debts, the Statistical Monitoring of Foreign Debts Tentative Provisions, the Detailed Rules for the Implementation of Provisional Regulations on Statistics and Supervision of External Debt, and the Administrative Measures for Registration of Foreign Debts. Pursuant to these regulations and rules, a shareholder loan in the form of foreign debt made to a PRC entity does not require the prior approval of SAFE, but such foreign debt must be registered with and recorded by SAFE or its local branches within 15 business days after entering into the foreign debt contract. Under these regulations and rules, the balance of the foreign debts of a foreign invested enterprise shall not exceed the difference between the total investment and the registered capital of the foreign invested enterprise, or Total Investment and Registered Capital Balance.

The principal regulations governing foreign currency exchange in China are the *Foreign Exchange Administration Regulations*, as amended in August 2008. Under this regulation, the Renminbi is freely convertible for current account items, including the trade and service-related foreign exchange transactions and other current exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made.

Pursuant to the *Administration Rules of the Settlement, Sale and Payment of Foreign Exchange* promulgated on June 20, 1996 by the People's Bank of China, foreign-invested enterprises in China may purchase or remit foreign currency for settlement of current account transactions without the approval of the SAFE. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities.

In addition, the *Notice of the General Affairs Department of SAFE on The Relevant Operation Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises*, or Circular 142, which was promulgated on August 29, 2008 by SAFE, regulates the conversion by foreign-invested enterprises of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Circular 142 requires that Renminbi converted from the foreign currency-denominated capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the relevant government authority and may not be used to make equity investments in PRC, unless specifically provided otherwise. The SAFE further strengthened its oversight over the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested enterprise. The use of such Renminbi may not be changed without approval from the SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Any violation of Circular 142 may result in severe penalties, including substantial fines.

In November 2012, SAFE promulgated the *Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment*, which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of Renminbi proceeds by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In addition, SAFE promulgated the *Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents* in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

In July 2014, SAFE decided to further reform the foreign exchange administration system in order to satisfy and facilitate the business and capital operations of foreign invested enterprises, and issued the *Circular on the Relevant Issues Concerning the Launch of Reforming Trial of the Administration Model of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises in Certain Areas*, or Circular 36, on August 4, 2014. This circular suspends the application of Circular 142 in certain areas and allows a foreign-invested enterprise registered in such areas to use the Renminbi capital converted from foreign currency registered capital for equity investments within the PRC.

On March 30, 2015, SAFE released the *Notice on the Reform of the Management Method for the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises*, or Circular 19, which has made certain adjustments to some regulatory requirements on the settlement of foreign exchange capital of foreign-invested enterprises, lifted some foreign exchange restrictions under Circular 142, and annulled Circular 142 and Circular 36. However, Circular 19 continues to, prohibit foreign-invested enterprises from, among other things, using Renminbi fund converted from its foreign exchange capitals for expenditure beyond its business scope, providing entrusted loans or repaying loans between non-financial enterprises.

On June 19, 2016, SAFE issued the *Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts*, or Circular 16, which took effect on the same day. Compared to Circular 19, Circular 16 not only provides that, in addition to foreign exchange capital, foreign debt funds and proceeds remitted from foreign listings should also be subject to the discretionary foreign exchange settlement, but also lifted the restriction, that foreign exchange capital under the capital accounts and the corresponding Renminbi capital obtained from foreign exchange settlement should not be used for repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to the third party.

The Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing, or PBOC Notice No. 9, issued by the PBOC on January 12, 2017, provides that within a transition period of one year from January 12, 2017, the foreign invested enterprises may adopt the currently valid foreign debt management mechanism, or Current Foreign Debt Mechanism, or the mechanism as provided in PBOC Notice No. 9, or Notice No. 9 Foreign Debt Mechanism, at their own discretion. PBOC Notice No. 9 provides that enterprises may conduct independent cross-border financing in RMB or foreign currencies as required. According to the PBOC Notice No.9, the outstanding cross-border financing of an enterprise (the outstanding balance drawn, here and below) shall be calculated using a risk-weighted approach, or Risk-Weighted Approach, and shall not exceed the specified upper limit, namely: risk-weighted outstanding cross-border financing  $\leq$  the upper limit of risk-weighted outstanding cross-border financing. Risk-weighted outstanding cross-border financing = outstanding amount of RMB and foreign currency denominated cross-border financing  $\times$  maturity risk conversion factor  $\times$  type risk conversion factor + outstanding foreign currency denominated cross-border financing  $\times$  exchange rate risk conversion factor. Maturity risk conversion factor shall be 1 for medium- and long-term cross-border financing with a term of more than one year and 1.5 for short-term cross-border financing with a term of less than one year. Type risk conversion factor shall be 1 for on-balance-sheet financing and 1 for off-balance-sheet financing (contingent liabilities) for the time being. Exchange rate risk conversion factor shall be 0.5. The PBOC Notice No. 9 further provides that the upper limit of risk-weighted outstanding cross-border financing for enterprises shall be 200% of its net assets, or Net Asset Limits. Enterprises shall file with SAFE in its capital item information system after entering into a cross-border financing agreement, but no later than three business days before making a withdrawal. As an example, the maximum amount of the loans that Yeelion Online, one of our PRC subsidiaries, may acquire from outside China is (i) US\$9.5 million, under the total investment minus registered capital approach, which is calculated based on its total investment of US\$29.5 million and registered capital of US\$20 million as of September 30, 2018; and (ii) RMB959.7 million (US\$139.7 million), under the net asset approach, calculated based on its net asset of RMB479.9 million (US\$69.9 million) as of September 30, 2018 pursuant to PRC GAAP.

Based on the foregoing, if we provide funding to our wholly foreign owned subsidiaries through shareholder loans, the balance of such loans shall not exceed the Total Investment and Registered Capital Balance and we will need to register such loans with SAFE or its local branches in the event that the Current Foreign Debt Mechanism applies, or the balance of such loans shall be subject to the Risk-Weighted Approach and the Net Asset Limits and we will need to file the loans with SAFE in its information system in the event that the Notice No. 9 Mechanism applies. Under the PBOC Notice No. 9, after a transition period of one year from January 11, 2017, the PBOC and SAFE will determine the cross-border financing administration mechanism for the foreign-invested enterprises after evaluating the overall implementation of PBOC Notice No. 9. As of the date hereof, neither the PBOC nor SAFE has promulgated and made public any further rules, regulations, notices or circulars in this regard. It is uncertain which mechanism will be adopted by the PBOC and SAFE in the future and what statutory limits will be imposed on us when providing loans to our PRC subsidiaries.

#### **Regulations on Trademarks**

Trademarks are protected by the PRC Trademark Law adopted in 1982, as subsequently amended, as well as the Implementation Regulations of the PRC Trademark Law adopted by the State Council in 2002 and 2013. The Trademark Office under the SAIC handles trademark registrations. Trademarks can be registered for a term of ten years and can be extended for another ten years if requested upon expiration of the first or any renewed ten-year term. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Where a trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same type of or similar commodities or services, the application for such trademark registration may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a "sufficient degree of reputation" through such other party's use. Trademark license agreements must be filed with the Trademark Office or its regional offices. Meanwhile, we have successfully applied on our own name 21 trademarks.

#### **Regulations on Patents**

The PRC Patent Law provides for patentable inventions, utility models and designs, which must meet three conditions: novelty, inventiveness and practical applicability. The State Intellectual Property Office is responsible for examining and approving patent applications. A patent is valid for a term of twenty years in the case of an invention and a term of ten years in the case of utility models and designs. We have obtained 25 patents, all of which we have ownership of, including a number of those that were originally under the ownership of certain individuals affiliated with our Company through ownership transfer.

#### **Regulations on Taxation**

See "Item 10. Additional Information – E. Taxation – PRC Taxation."

## **Regulations on Employment**

In accordance with the PRC National Labor Law, which became effective in January 1995, and the PRC Labor Contract Law, which became effective in January 2008, as amended subsequently in 2012, employers must execute written labor contracts with full-time employees in order to establish an employment relationship. All employers must compensate their employees equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly abide by state rules and standards and provide employees with appropriate workplace safety training. In addition, employers in China are obliged to pay contributions to the social insurance plan and the housing fund plan for employees.

## **Regulations Related to Labor and Social Security**

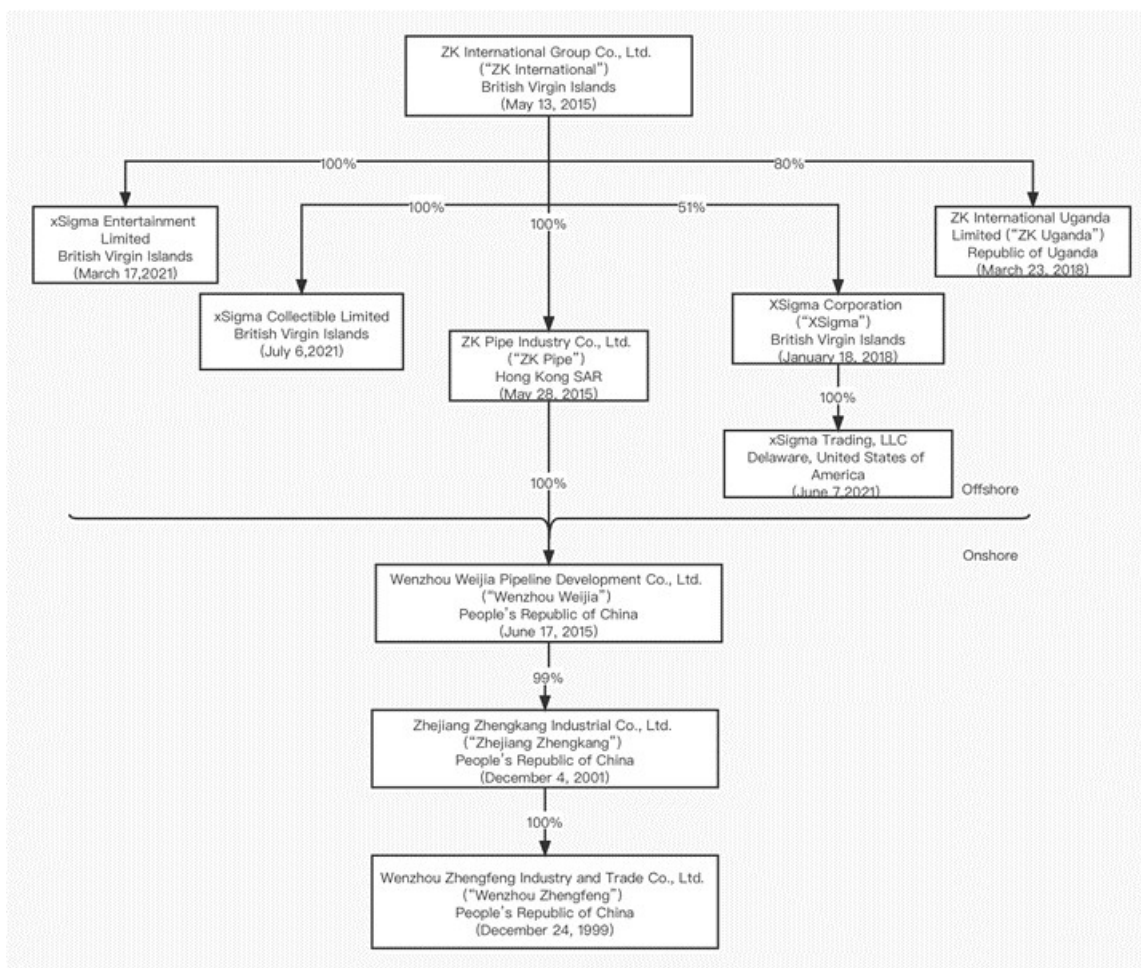
Pursuant to the PRC Labor Law, the PRC Labor Contract Law and the Implementing Regulations of the Employment Contracts Law, labor relationships between employers and employees must be executed in written form. Wages may not be lower than the local minimum wage. Employers must establish a system for labor safety and sanitation, strictly abide by state standards and provide relevant education to its employees. Employees are also required to work in safe and sanitary conditions.

On December 28, 2012, the PRC Labor Contract Law was amended with effect on July 1, 2013 to impose more stringent requirements on labor dispatch. Under such law, dispatched workers are entitled to pay equal to that of full-time employees for equal work, but the number of dispatched workers that an employer hires may not exceed a certain percentage of its total number of employees as determined by the Ministry of Human Resources and Social Security. Additionally, dispatched workers are only permitted to engage in temporary, auxiliary or substitute work. According to the Interim Provisions on Labor Dispatch promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, the number of dispatched workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and dispatched workers). The Interim Provisions on Labor Dispatch require employers not in compliance with the PRC Labor Contract Law in this regard to reduce the number of its dispatched workers to below 10% of the total number of its employees prior to March 1, 2016. In addition, an employer is not permitted to hire any new dispatched worker until the number of its dispatched workers has been reduced to below 10% of the total number of its employees.

Under PRC laws, rules and regulations, including the Social Insurance Law, the Interim Regulations on the Collection and Payment of Social Security Funds and the Regulations on the Administration of Housing Accumulation Funds, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance and housing accumulation funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to pay the deficit amount. We have contributed to the basic and minimum social insurance plan. Due to a high employee turnover rate in our industry, it is difficult for us to comply fully with the law. While we believe we have made adequate provision of such outstanding amounts of contributions to such plans in our financial statements, any failure to make sufficient payments to such plans would be in violation of applicable PRC laws and regulations and, if we are found to be in violation of such laws and regulations, we could be required to make up the contributions for such plans as well as to pay late fees and fines.

**A. Organizational Structure**

Below is a chart illustrating our current corporate structure:



Wenzhou Weijia Pipeline Development Co., Ltd. (“Wenzhou Weijia”) was incorporated on June 17, 2015 under the laws of the People’s Republic of China. A wholly-owned subsidiary of ZK Pipe and a wholly foreign-owned entity under the PRC laws, Wenzhou’s registered capital is USD 20,000,000 and the registered principal activities of Wenzhou Weijia including (i) technical research, (ii) technical service and sales of metal pipe and fittings, (iii) technical service and sales of light industry machinery and (iv) equipment imports and exports of goods and technology.

Wenzhou Zhengfeng Industry and Trade Co., Ltd. or formerly known as Wenzhou Zhengfeng Steel Strip Co., Ltd. (“Wenzhou Zhengfeng”) was incorporated on December 24, 1999 under the laws of the People’s Republic of China. Wenzhou Zhengfeng’s registered and paid in capital is RMB 2,880,000. Through equity transfers, Wenzhou Zhengfeng is a wholly-owned subsidiary of Zhejiang Zhengkang and its principal activity is trading of steel strip that are mainly purchased from Zhejiang Zhengkang.

xSigma Corporation (“xSigma Corporation”) was incorporated on January 18, 2018 under the laws of the British Virgin Islands. Xsigma Corporation is 51% owned by ZK International. xSigma Corporation operates the DeFi Protocol, which was launched in February 2021.

xSigma Collectibles Limited (“xSigma Collectibles”) was incorporated on July 6 2021 under the laws of the British Virgin Islands. xSigma Collectibles is a wholly-owned subsidiary of ZK International. xSigma Collectibles operates MaximNFT, which was launched in November 2021.

xSigma Entertainment Limited (“xSigma Entertainment”) was incorporated on March 17, 2021 under the laws of the British Virgin Islands. xSigma Entertainment is a wholly-owned subsidiary of ZK International. xSigma Entertainment Limited is a holding entity and currently 15.73% of equity ownership in CG Malta Holding Limited.

xSigma Trading, LLC (“xSigma Trading, LLC”) was formed on June 7, 2021 in Delaware company. xSigma Trading is a wholly-owned subsidiary of xSigma Corporation. It is currently not actively engaging in any business operations and will seek and pursue acquisition opportunities for the growth of our business.

ZK International Uganda Limited (“ZK Uganda”) was incorporated on March 23, 2018 under the laws of the Republic of Uganda. ZK Uganda is 80% owned by ZK International, and is currently not engaging in any business but is actively bidding on governmental infrastructural projects in Uganda to seek expansion opportunities that would complement and diversify the current business operations of the Company.

ZK Pipe Industry Co., Ltd. (“ZK Pipe”) was incorporated on May 28, 2015 under the law of Hong Kong SAR. The registered capital is HKD 1,000,000, with 40% of the equity interest held by ZK International and 60% held by Kai Chun Cheng initially. On August 5, 2015, Mr. Cheng transferred all of his equity in ZK Pipe to ZK International, making ZK Pipe a wholly-owned subsidiary of ZK International. The registered principal activities of ZK Pipe including technical research of metal pipe and fittings, metal take-up valve plumbing and water purifying plant, as well as importing and exporting of goods.

Zhejiang Zhengkang Industrial Co., Ltd., or formerly known as Wenzhou Yafei Valve Manufacturing Co. Ltd (“Zhejiang Zhengkang”) was incorporated on December 4, 2001 under the laws of the People’s Republic of China. Zhejiang Zhengkang’s registered and paid in capital is RMB 20,000,000. Through equity transfers, Wenzhou Weijia holds 99% of the equity interest of Zhejiang Zhengkang, with the remaining 1% held by our Chief Executive Officer, Jiancong Huang. The principal activities of Zhejiang Zhengkang include (i) manufacturing and sales of stainless steel band, copper strip, welded stainless steel pipes and fittings, pipe fittings, valve, light industry machinery and equipment and other stainless steel products and (ii) imports and exports of goods and technology.

**B. Property and Plants**

There is no private land ownership in China. Individuals and entities are permitted to acquire land use rights for specific purposes. We were granted land use rights for our facilities in Wenzhou, which expires on November 30, 2052. Following is a list of our properties, all of which we own the land use rights to:

<b>Property</b>	<b>Duration of Land Use Rights</b>	<b>Space</b>	<b>Ground Floor Area</b>
No. 678 Dingxiang Road, Binhai Industrial Park Economic & Technology Development Zone Wenzhou, Zhejiang Province P.R. China 325020	December 1, 2002 - November 30, 2052	19,427 m <sup>2</sup>	9,600 m <sup>2</sup>
Longlian Plaza Building #3, Yongzhong Boulevarad, 167 North Luodong Road, Suite 702, Longwan District, Wenzhou, Zhejiang Province, P.R. China	August 19, 2016 – November 12 2051	1012 m <sup>2</sup>	—
23 units of Xuri Xiaoqu, B404 Binhai Industrial Park Economic & Technology Development Zone Wenzhou, Zhejiang Province P.R. China 325020	March 31, 2003 – March 31, 2073	1377.14 m <sup>2</sup>	—

Our property in No. 678 Dingxiang Road, Binhai Industrial Park, Economic & Technology Development Zone, Wenzhou, Zhejiang Province, P.R. China 325020 is our central office and manufacturing facility. At this location, we have a variety of heavy equipment required to produce our steel strips, pipes and fittings, product testing equipment and laboratory equipment for research and development. Our office in Longlian Plaza, for which ownership belongs to Wenzhou Zhengfeng, is for administrative and sales purposes and contains customary office equipment. We are not aware of any environmental concerns or limitations on the use of our properties for the purposes we currently use them or intend to use them in the future.

**ITEM 4A. UNRESOLVED STAFF  
COMMENTS**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND  
PROSPECTS**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes that appear in this annual report. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this annual report, particularly in "Risk Factors."*

**A. Operating  
Results**

Incorporated on May 13, 2015, under the laws of the British Virgin Islands ("BVI"), we primarily conduct our business through our subsidiary Zhejiang Zhengkang. Our core business focuses on providing systematic solutions to construction projects that require sophisticated piping systems. Leveraging our experience in the industry, we offer urban planners and real estate developers sophisticated pipe and fitting products and engineering expertise, enabling them to bring communities reliable and durable gas and water transmission systems. Our products are primarily sold in China, but are also exported and distributed in Europe, Africa and Southeast Asia. We have received numerous awards and recognitions domestically and internationally. Located within the Wenzhou Binhai Industrial Park, a national economic development zone, our facility occupies approximately five acres, consisting of business offices, manufacturing plants, a research and development center and storage facilities.

We specialize in designing and producing pipes and fittings such as double-press thin-walled stainless steel tubes and fittings, carbon steel tubes and fittings and single-press tubes and fittings. Focused on the innovation and expansion of our product to meet the specific needs of our clients, we believe that we are a leading manufacturer and engineer of high-performance stainless steel pipes. Our products offer a comprehensive suite of superior solutions for use in the construction and infrastructure industries. Our innovative products are used in a broad range of applications, including water and gas transmission within urban infrastructural development, residential housing development, food and beverage production, oil and gas exploitation, and agricultural irrigation. Since Zhejiang Zhengkang's founding in 2001, we have developed an array of patented pipe and fitting products that have been marketed and distributed both domestically and internationally.

**Impact of Covid-19**

Recently, there has been a global pandemic of a novel strain of coronavirus (COVID-19) that first emerged in China in December 2019 and has spread globally. The pandemic has resulted in quarantines, travel restrictions, and the temporary closure of stores and business facilities in China for the first half year of 2020. In March 2020, the World Health Organization declared COVID-19 as a global pandemic. Given the rapidly expanding nature of COVID-19 pandemic, and substantially all of our business operations and our workforces are concentrated in China, we believe that it has impacted and will likely continue to impact our business, results of operations, and financial condition. Potential impact on our results of operations will also depend on future developments and information that may emerge regarding the duration and severity of COVID-19 and the actions taken by governmental authorities and other entities to contain COVID-19 or to mitigate its impacts, almost all of which are beyond our control.

The impacts of COVID-19 on our business, financial condition, and results of operations include, but are not limited to, the following:

- Our production facilities were not fully operational from early February 2020 to early March in 2020. We temporarily closed our offices and production facilities in early February 2020, as required by relevant PRC local authorities. Our offices and manufacturing facilities reopened on February 18, 2020 and manufacturing capacity had been picking up slowly until fully operational in early March.

- Some of our customers have been negatively impacted by the outbreak, which reduced the demand for certain of our products. As a temporary sales strategy during the pandemic, decreased weighted average selling prices were offered to customers by providing one-off discount on certain products to some key customers as a result of other customers not being able to fulfill their orders as they suffered from the negative impact of the COVID-19 pandemic earlier this year, and as a result we have seen significantly decreased gross margin for certain products.
- We experienced some disruption to our supply chain during the Chinese government mandated lockdown, with suppliers increasing lead times and purchase price for raw materials. While all our major suppliers are currently fully operational, any future disruption in their operations would impact our ability to manufacture and deliver our products to customers. In addition, reductions in commercial airline and cargo flights, disruptions to ports and other shipping infrastructure resulting from the pandemic are resulting in increased transport times to deliver materials and components to our facilities and to transfer our products to our key suppliers, and may also affect our ability to timely ship our products to customers. As a result of these supply chain disruptions, we have increased customer order lead times. This may limit our ability to fulfil orders with short lead times and means that we may be unable to satisfy all of the demand for our products in a timely manner, which may adversely affect our relationships with our customers.
- Our credit policy typically requires payment within 180 days. Our average accounts receivable turnover period was approximately 119 days for the year ended September 30, 2020. Therefore, we believe our payment collection has not been adversely impacted by the pandemic.
- During the fiscal year ended September 30, 2020, we were able to repay all our debt and other obligations without taking advantage of any available payment deferral or forbearance term.
- Our workforce remained stable during the fiscal year ended September 30, 2021 and 2020. We did not receive government subsidy or take advantage of any government assistance program in relation to the pandemic. We have complied with the various safety measures required by the local government and provided our employees with protective gears and regularly monitor and trace the health condition of our employees. However, we do not believe those safety measures have materially impacted the operations of the PRC subsidiaries.

In the long term, the COVID-19 pandemic is likely to adversely affect the economies and financial markets of many countries, and could result in a global economic downturn or a recession. This would likely adversely affect demand on some of our products and those of our customers, such as display modules used for automotive display, which may, in turn negatively impact our results of operations.

While we continue to observe an increasing demand in our products for consumer electronics, the market remains uncertain and it may not be sustainable in the long term. The degree to which the pandemic ultimately impacts our business and results of operations will depend on future developments beyond our control, including the severity of the pandemic, the actions to contain or treat the virus, how quickly and to what extent the economic and operating conditions can resume, and the severity and duration of the global economic downturn as a result of the pandemic.

We promote our brand through our sales staff, distributors, trade shows, trade fairs, forums, direct communications with potential customers, business networks, and the internet. In addition, we tailor our products to the needs of our clients and provide our clients with competitive pricing to establish long-term business relationships. We take pride in the cutting-edge technology and superb quality of our products, which have received recognitions such as the ISO9001 Quality Management System Certification, ISO14001 Environmental Management System Certification, and National Industrial Stainless Steel Production License, among other awards and honors. Our products have been used in well-known facilities such as Olympic stadiums, multinational hotel chains, and mega-sized apartment complexes.



The following table presents an overview of our results of operations for the years ended September 30, 2021, 2020 and 2019:

	For the year ended September 30,		
	2021	2020	2019
Revenues	\$ 99,407,217	\$ 86,846,791	\$ 63,883,520
Cost of sales	(92,936,029)	(82,903,989)	(48,239,478)
<b>Gross profit</b>	<b>6,471,188</b>	<b>3,942,802</b>	<b>15,644,042</b>
Operating expenses:			
Selling and marketing expenses	3,117,906	2,215,651	2,647,429
General and administrative expenses	5,772,710	2,482,972	2,897,995
Research and development costs	1,234,161	1,123,555	1,452,061
<b>Total operating expenses</b>	<b>10,124,777</b>	<b>5,822,178</b>	<b>6,997,485</b>
<b>Operating Income (loss)</b>	<b>(3,653,589)</b>	<b>(1,879,376)</b>	<b>8,646,557</b>
Other income (expenses):			
Interest expenses	(1,196,648)	(1,000,554)	(1,151,045)
Interest income	13,733	7,192	24,437
Gain on disposal of subsidiary, net	—	536,612	—
Income (loss) on investment	50,649	(256,937)	—
Other income, net	431,438	327,845	921,973
<b>Total other expenses, net</b>	<b>(700,828)</b>	<b>(385,842)</b>	<b>(204,635)</b>
<b>Income (loss) before income taxes</b>	<b>(4,354,417)</b>	<b>(2,265,218)</b>	<b>8,441,922</b>
Income tax recovery (expense)	552,146	1,428,202	(248,228)
<b>Net (loss) income</b>	<b>\$ (3,802,271)</b>	<b>\$ (837,016)</b>	<b>\$ 8,193,694</b>
Net (loss) income attributable to non-controlling interests	2,757	11,402	(86,828)
Net (loss) income attributable to ZK International Group Co., Ltd.	(3,799,514)	(825,614)	\$ 8,106,866
<b>Net (loss) income</b>	<b>(3,802,271)</b>	<b>\$ (837,016)</b>	<b>\$ 8,193,694</b>
Other comprehensive income (loss):			
Foreign currency translation adjustment	2,423,439	2,319,048	(1,694,278)
<b>Total comprehensive income</b>	<b>\$ (1,378,832)</b>	<b>\$ 1,482,032</b>	<b>\$ 6,499,416</b>

#### Revenue

Revenues increased by \$12,560,426 or 14.46%, to \$99,407,217 for the year ended September 30, 2021 from \$86,846,791 for the year ended September 30, 2020. The increase in revenues was primarily driven by the following factors:

- 1) Due to increased market demand of construction materials and shortage of supply on the current market, particularly the piping systems in the real estate sector, as well as less discount sales compared to the fiscal year 2020, we observed an increase of weighted average selling price (“ASP”) during the fiscal year 2021. During 2021 fiscal year, the average selling price of electrolytic nickel increased by 18.24% from RMB 96,496 per ton in fiscal year 2020 to RMB 114,092 in fiscal year 2021; the average selling price of steel strip increased by 5.96% from RMB 14.27 per kilogram in fiscal year 2020 to RMB 15.12 in fiscal year 2021; the average selling price of steel pipe increased by 14.08% from RMB 95.30 per piece in fiscal year 2020 to RMB 108.73 in fiscal year 2021; the average selling price of pipe fittings decreased by 25.77% from RMB 22.82 each in fiscal year 2020 to RMB 16.94 in fiscal year 2021.

- 2) We have also achieved an overall increase in sales volume. The sales volume of steel strip increased by 9.37% from 2036.35 tons in fiscal year 2020 to 2227.19 tons in fiscal year 2021; Sales of pipes decreased by 29.54% from 1,126,135 in fiscal year 2020 to 793,480 in fiscal year 2021; The sales volume of pipe fittings increased by 68.86% from 5,404,614 pieces in fiscal year 2020 to 9,126,002 pieces in fiscal year 2021.
- 3) As a result of global shortage of construction materials, our international sales increased over 162.73% compared to the last fiscal year. Our international sales revenue during fiscal year 2021 amounted to \$2,707,441, an increase of \$1,676,951 compared to last fiscal year

Revenues increased by \$22,963,271 or 35.95%, to \$86,846,791 for the year ended September 30, 2020 from \$63,883,520 for the year ended September 30, 2019. The increase in revenues was primarily driven by our increased sales of stainless steel coil and strip as compared to our stainless steel piping and fitting products. During the year ended September 30, 2020, the sales of stainless steel coil and strip accounts for approximately 56.09% of our total revenue, as compared to 25.53% of our total revenue during the year ended September 30, 2019. The increased sales of stainless steel coil and strip, which is also the raw materials of our stainless steel piping and fitting products, was primarily driven by the management's decision to decrease inventory level during the Covid-19 pandemic and to strengthen Company's cash flow. The increase of sales revenue was also attributable to the decreased weighted average selling prices we offered to customers as a temporary sales strategy during the pandemic by providing one-off discount on certain products to some key customers as a result of other customers not being able to fulfill their orders as they suffered from the negative impact of the COVID-19 pandemic earlier this year.

#### *Gross profit*

Our gross profit increased by \$2,528,386, or 64.13% to \$6,471,188 for the year ended September 30, 2021 from \$3,942,802 for the year ended September 30, 2020. Gross profit margin was 6.51% for the year ended September 30, 2021, as compared to 4.54% for the year ended September 30, 2020. The increase of gross profit was primarily due to increased weighted average selling prices which is attributable to the market demand recovery over the construction materials and supply shortages on the current market as well as less discount sales compared to the fiscal year 2020.

Our gross profit decreased by \$11,701,240, or 74.80%, to \$3,942,802 for the year ended September 30, 2020 from \$15,644,042 for the year ended September 30, 2019. Gross profit margin was 4.54% for the year ended September 30, 2020, as compared to 24.49% for the year ended September 30, 2019. The decrease of gross profit was primarily due to decreased weighted average selling prices we offered to customers as a temporary sales strategy during the pandemic by providing one-off discount on certain products to some key customers as a result of other customers not being able to fulfill their orders as they suffered from the negative impact of the COVID-19 pandemic earlier this year. The decrease of gross profit was also attributable to the increased sales percentage of low gross margin products such as stainless steel coil and strip and decreased sales percentage of high gross margin products such as stainless steel piping and fitting products. The gross profit of stainless steel coil products is approximately 0.15% due to the decrease of average selling price of stainless steel coil products, while our water and gas piping products generally have gross margin of 7.58% during the year ended September 30, 2020.

#### *Selling and Marketing Expenses*

We incurred \$3,117,906 in selling and marketing expenses for the fiscal year ended September 30, 2021, compared to \$2,215,651 for the fiscal year ended September 30, 2020. Selling and marketing expenses increased by \$902,255, or 40.72%, during the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020. This increase is primarily due to increase in payroll expenses, freight expenses, and compensation for the sales personnel during the year.

We incurred \$2,215,651 in selling and marketing expenses for the fiscal year ended September 30, 2020, compared to \$2,647,429 for the fiscal year ended September 30, 2019. Selling and marketing expenses decreased by \$431,778, or 16.31%, during the fiscal year ended September 30, 2020 compared to the fiscal year ended September 30, 2019. This decrease is primarily due to decreases in sales payroll expenses, freight expenses, and compensation for the sales personnel during the year.

*General and Administrative expenses*

We incurred \$5,772,710 in general and administrative expenses for the fiscal year ended September 30, 2021, compared to \$2,482,972 for the fiscal year ended September 30, 2020. General and administrative expenses increase by \$3,289,738, or 132.49%, for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020. The increase is primarily due to the stock-based compensation incurred during the fiscal year 2021 for the expenses related to our new business operations. During fiscal year 2021, we hired third-part individuals and consulting firms to facilitate our operations in xSigma Corporation which is principally engaged in decentralized finance (“DeFi”) and cryptocurrency market, and xSigma Collectibles which is principally engaged in operating NFT (Non-Fungible Token) marketplace.

We incurred \$2,482,972 in general and administrative expenses for the fiscal year ended September 30, 2020, compared to \$2,897,995 for the fiscal year ended September 30, 2019. General and administrative expenses decreased by \$415,023, or 14.32%, for the fiscal year ended September 30, 2020 compared to the fiscal year ended September 30, 2019. The decrease is primarily due to decrease in travelling expenses, advertising expenses and entertainment expenses.

*Research and Development Expenses*

We incurred \$1,234,161 in research and development expenses for the fiscal year ended September 30, 2021, compared to \$1,123,555 for the fiscal year ended September 30, 2020. R&D expenses increased by \$110,606, or 9.84%, for the fiscal year ended September 30, 2021 compared to the fiscal year ended September 30, 2020. The increase was primarily due to the increased research and development activities during fiscal year 2021. Management is committed to expanding our research and development activities to enhance competitive advantage.

We incurred \$1,123,555 in research and development expenses for the fiscal year ended September 30, 2020, compared to \$1,452,061 for the fiscal year ended September 30, 2019. R&D expenses decreased by \$328,506, or 22.62%, for the fiscal year ended September 30, 2020 compared to the fiscal year ended September 30, 2019. The decrease was primarily due to the decreased research and development activities as a result of the disruption caused by the pandemic.

*Income from operations*

As a result of the factors described above, operating loss was \$3,653,589 for the fiscal year ended September 30, 2021, compared to operating loss of \$1,879,376 for the fiscal year ended September 30, 2020, an increase of operating loss of \$1,774,213 or approximately 94.40%.

As a result of the factors described above, operating loss was \$1,879,376 for the fiscal year ended September 30, 2020, compared to operating income of \$8,646,557 for the fiscal year ended September 30, 2019, a decrease of operating income of \$10,525,933, or approximately 121.74%.

*Other income and expenses*

Our interest income and expenses were \$13,733 and \$1,196,648, respectively, for the fiscal year ended September 30, 2021, compared to interest income and expenses of \$7,192 and \$1,000,554, respectively, for the fiscal year ended September 30, 2020. We also had government grant of \$446,480 for financial support to the Company under local government’s innovation incentive programs which was recorded as other income in our Statement of Operations.

Our interest income and expenses were \$7,192 and \$1,000,554, respectively, for the fiscal year ended September 30, 2020, compared to interest income and expenses of \$24,437 and \$1,151,045, respectively, for the fiscal year ended September 30, 2019. We also had gain of \$536,612 for the fiscal year ended September 30, 2020 for selling one subsidiary company to unaffiliated individual, government grant of \$327,651 for financial support to the Company under local government’s innovation incentive programs, and a loss incurred due to failed acquisition which caused surrender of long-term deposit we pledged to the company with an amount of \$256,937.

*Net Income*

As a result of the factors described above, our net loss for the fiscal year ended September 30, 2021 was \$3,802,271 compared to net loss of \$837,016 for the fiscal year ended September 30, 2020, an increase in loss of \$2,965,255 or approximately 354.27%.

Our net income for the fiscal year ended September 30, 2020 was \$837,016 compared to net profit of \$8,193,694 for the fiscal year ended September 30, 2019, a decrease in profit of \$9,030,710, or approximately 110.22%.

*Foreign currency translation*

Our consolidated financial statements are expressed in U.S. dollars but the functional currency of our operating subsidiaries is RMB. Results of operations and cash flows are translated at average exchange rates during the period, assets and liabilities are translated at the unified exchange rate at the end of the period and equity is translated at historical exchange rates. Translation adjustments resulting from the process of translating the financial statements denominated in RMB into U.S. dollars are included in determining comprehensive income. Our foreign currency translation gain for the fiscal year ended September 30, 2021 was \$2,423,439, compared to a currency translation gain of \$2,319,048 for the fiscal year ended September 30, 2020, an increase of \$104,391. The increased currency translation gain is primarily due to the appreciation of RMB against the U.S. dollars. Our foreign currency translation loss for the fiscal year ended September 30, 2020 was \$2,319,048, compared to a currency translation loss of \$1,694,278 for the fiscal year ended September 30, 2019, an decrease of \$4,013,326. The increased loss is primarily due to the depreciation of RMB against the U.S. dollars.

**B. Liquidity and Capital Resources**

As of September 30, 2021, 2020 and 2019, we had cash and cash equivalents of \$13,525,298, \$3,759,535, and \$3,451,138 respectively. We believe that our current cash, cash to be generated from our operations and access to capital market will be sufficient to meet our working capital needs for at least the next twelve months. However, we do not have any amounts committed to be provided by our related party. We are also not dependent upon future financing to meet our liquidity needs for the next twelve months. However, we plan to expand our business to implement our growth strategies in the water supply market and strengthen our position in the marketplace. To do so, we may need more capital through equity financing to increase our production and meet market demands.

Substantially all of our operations are conducted in China and all of our revenues, expense, cash and cash equivalents are denominated in Renminbi (RMB). RMB is subject to the exchange control regulation in China, and, as a result, we may have difficulty distributing any dividends outside of China due to PRC exchange control regulations that restrict its ability to convert RMB into U.S. Dollars.

Under applicable PRC regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a foreign-invested enterprise in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Amounts restricted include the PRC subsidiaries' paid-in capital and statutory surplus reserves of the Company's PRC subsidiaries totaling \$7,208,369 as of September 30, 2021 and \$7,198,466 as of September 30, 2020. The board of directors of a foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity owners except in the event of liquidation. Under PRC law, RMB is currently convertible into U.S. Dollars under a company's "current account," which includes dividends, trade and service-related foreign exchange transactions, without prior approval of the State Administration of Foreign Exchange (SAFE), but is not from a company's "capital account," which includes foreign direct investments and loans, without the prior approval of the SAFE.

With respect to retained earnings accrued after such date, our board of directors may declare dividends after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment, as well as the amount, of dividends will be subject to our By-Laws, charter and applicable Chinese and U.S. state and federal laws and regulations, including the approval from the shareholders of each subsidiary which intends to declare such dividends, if applicable.

We have limited financial obligations dominated in US dollars, thus the foreign currency restrictions and regulations in the PRC on the dividends distribution will not have a material impact on the liquidity, financial condition and results of operations of the Company.

**Cash Flow Summary**

	Years ended September 30,		
	2021	2020	2019
Net cash provided by (used in) operating activities	(3,479,064)	\$ 460,205	\$ 8,464,493
Net cash used in investing activities	(27,146,073)	(1,162,041)	(885,475)
Net cash provided by (used in) financing activities	40,241,501	761,283	(11,726,567)
Effect of exchange rate changes on cash	227,305	248,950	(83,902)
Net increase (decrease) in cash	9,843,669	\$ 308,397	\$ (4,231,451)
Cash, cash equivalents and restricted cash at beginning of period	3,759,535	3,451,138	7,682,589
Cash, cash equivalents and restricted cash at end of period	13,603,204	\$ 3,759,535	\$ 3,451,138

*Operating Activities:*

Net cash used in operating activities for the year ended September 30, 2021 was approximately \$3.48 million, which was primarily attributable to a net loss approximately \$3.80 million, adjusted for non-cash items for approximately \$2.34 million and adjustments for changes in working capital approximately \$2.02 million. The adjustments for changes in working capital mainly included:

- (i) Decrease in accounts receivable of approximately \$5.80 million – our accounts receivable decrease significantly because we collected a significant amount of accounts receivable from some completed public utility projects during fiscal year 2021. We generated a majority of revenue from construction companies that carry public utility projects, such as municipal water and gas supply pipeline and the typical payment term with those customers is 6 months. These construction projects are typically funded by the local governments. Our customers usually get small progress payments throughout the construction period and a larger payment until the inspection is done and when the projects are completed.

The following table is our net accounts receivable aging schedule as of September 30, 2021, 2020, and 2019:

	Total	< 1 Year	1-2 Years	2-3 Years	> 3 Years
As of September 30, 2021	\$ 27,124,959	\$ 11,594,453	\$ 7,668,524	\$ 6,422,535	\$ 1,439,447
As of September 30, 2020	\$ 31,393,289	\$ 21,234,779	\$ 8,245,342	\$ 1,259,192	\$ 653,976
As of September 30, 2019	\$ 25,115,040	\$ 21,378,540	\$ 2,322,911	\$ 871,526	\$ 542,063

During the 2021 fiscal year, some of the major cities imposed certain lockdown and public health policies to contain the spread of covid-19, and as a result many of our customers' projects were suspended and delayed which substantially delayed their payment. The Company evaluated the adequacy of our allowance for doubtful accounts based on individual account analysis, historical collection trends, and the financial position of our customer. We believe our allowance for doubtful accounts is adequate as most of the customers with accounts receivable greater than one year old are either companies funded by local government or companies with long-term partnership with us. As of June 15, 2022, we received subsequent collection of approximate \$15 million.

- (ii) Increase in advances to suppliers of approximately \$8.30 million - our advances to suppliers increased significantly mainly attributable to the tight shortage of raw materials which is steel coil. The supply shortage leads to long lead time of raw material procurement. To reduce the lead time, we were required to make advance payment for order we placed.
- (iii) Decrease in accounts payables of approximately \$8.66 million, primarily caused by the tight supply of raw materials and we were generally required to make advance payment in order to reduce lead time and therefore reduced the payable to our suppliers.
- (iv) Increase in advances from customers of approximately \$3.16 million – as a response to the raw material supply shortage and advance payment required by our suppliers, we increased our advance payment requirement for the order placed by our customers to strengthen our working capital.

Net cash provided by operating activities for the year ended September 30, 2020 was approximately \$0.46 million, which was primarily attributable to a net loss approximately \$0.84 million, adjusted for non-cash items for approximately \$1.09 million and adjustments for changes in working capital approximately \$2.39 million. The adjustments for changes in working capital mainly included:

(i) Increase in accounts receivable of approximately \$4.80 million – our accounts receivable increased due to increased sales volume during 2020 fiscal year as compared to 2019 fiscal year. For the fiscal year ended September 30, 2020, we had an overall sales outstanding of 119 days compared with 163 days in 2019. We generated a majority of revenue from construction companies that carry public utility projects, such as municipal water and gas supply pipeline and the typical payment term with those customers is 6 months. These construction projects are typically funded by the local governments. Our customers usually get small progress payments throughout the construction period and a larger payment until the inspection is done and when the projects are completed. When our customers request for payment extension, we carefully review the background of the projects and the status of each construction project. We only grant payment extension to our customers when they have healthy financial standings, have no records of delinquent payments and can demonstrate their ability to continuing making the payments. Our management team believes that the risk of writing off the accounts receivable is low because of the involvement of local municipalities.

(ii) Decrease in advances to suppliers of approximately \$2.93 million for the year ended December 31, 2020 because of the order fulfillment by our suppliers which offset advance balances;

(iii) Increase in accounts payables of approximately \$5.58 million, primarily because of the increase of our purchases of raw materials and longer payment terms offered by our suppliers;

Net cash provided by operating activities for the year ended September 30, 2019 was approximately \$8.46 million, which was primarily attributable to a net profit approximately \$8.19 million, adjusted for non-cash items for approximately \$0.54 million and adjustments for changes in working capital approximately \$0.27 million. The adjustments for changes in working capital mainly included:

(i) Decrease in accounts receivable of approximately \$1.00 million – our accounts receivable decreased due to faster collection of accounts receivables from our customers during 2019 fiscal year as compared to 2018 fiscal year. For the fiscal year ended September 30, 2019, we had an overall sales outstanding of 163 days compared with 180 days in 2018. As with 2018 fiscal year, we generated a majority of revenue from construction companies that carry public utility projects, such as municipal water and gas supply pipeline and the typical payment term with those customers is 6 months. These construction projects are typically funded by the local governments. Our customers usually get small progress payments throughout the construction period and a larger payment until the inspection is done and when the projects are completed. When our customers request for payment extension, we carefully review the background of the projects and the status of each construction project. We only grant payment extension to our customers when they have healthy financial standings, have no records of delinquent payments and can demonstrate their ability to continuing making the payments. Our management team believes that the risk of writing off the accounts receivable is low because of the involvement of local municipalities.

(ii) Increase in inventories of approximately \$3.85 million – we have more inventories in stock because: 1) we believe the cost of the raw materials will increase so we purchased more to hedge price fluctuation, and 2) due to limited production capability we outsourced some productions to third parties for initial processing to reduce workload and speed delivery, and as of September 30, 2019 we have approximately \$4.55 million inventory in outsourcing facilities;

(iii) Increase in accounts payables of approximately \$2.59 million, primarily because of the increase of our purchases of raw materials;

(iv) Decrease approximately \$1.31 in accrued expenses and other current liabilities which mainly consists of VAT tax payables and other tax payables;

*Investing Activities:*

Net cash used in investing activities was approximately \$27.15 million for the year ended September 30, 2021. It was primarily attributable to the investment into CG Malta with an amount of \$25 million. The Company purchased an ownership of 15.73% of CG Malta for a consideration of \$25 million. CG Malta is a globally licensed sports betting and casino operator and launched MaximBet in 2021. MaximBet is sports betting and casino website, available at MaximBet.com and through iOS and Android applications that will allow users to bet on sports and casino in the United States and around the world.

Net cash used in investing activities was approximately \$1.16 million for the year ended September 30, 2020. It was primarily attributable to the purchase of new equipment which approximately \$1.17 million for production needs during the fiscal year.

Net cash used in investing activities was approximately \$0.89 million for the year ended September 30, 2019. It was primarily attributable to the purchase of new equipment which approximately \$0.88 million for production needs during the fiscal year.

*Financing Activities:*

Net cash provided by financing activities was approximately \$40.24 million for the year ended September 30, 2021. It was primarily attributable to proceeds from stock offering of approximately \$24.76 million, convertible notes offering of approximately \$14.07 million, warrants cash exercise of approximately \$1.35 million, and net proceeds from short-term bank loan of approximately \$3.06 million, offset by the proceeds into short-term investment of approximately \$2.23 million and repayment of other borrowing of approximately \$0.48 million.

Net cash provided by financing activities was approximately \$0.76 million for the year ended September 30, 2020. It was primarily attributable to the net borrowing for fix assets purchase which is approximately \$0.67 million.

Net cash used in financing activities was approximately \$11.73 million for the year ended September 30, 2019. It was primarily attributable to the long-term deposit pledged to third parties with an amount of \$7,682,151 for potential acquisitions that are under negotiation and due diligence and the purchase of new equipment for production needs during the fiscal year and investment in other company. The fund pledged have no definite term, however the Company anticipates the detailed acquisition proposals will be presented to the Board of Directors and shareholders of the Company for voting within one year. In the case that any acquisition is approved by both parties, the deposits will be used as initial payments and offset the total cash considerations of the deal. If any of the acquisition failed to be approved, the Target Companies are obligated to return the deposit to the Company or its subsidiaries.

*Credit Facility*

In addition to equity financing, we mainly finance our operations through short-term revolving loans provided by a syndicate of banks, as listed in the table below. As of September 30, 2021, we had 23 outstanding short-term loans provided by six (6) banks, totaling RMB 137,855,000 in the aggregate, or approximately \$21.39 million. Each of these borrowings has a term of six months to one year and, as per our agreement with these banks, all of the loans are expected to be renewed and funds can be accessed immediately when the outstanding principal and interest are repaid in full. This ensures that each loan can be repaid on time by both our working capital and the fund released from the other revolving loans. Most of our loans have fixed interest rate, while some loans are subject to variable interest rate, that are indicated in the table below. The weighted average annual interest rates 4.66% and 5.55% for the years ended September 30, 2021 and 2020, respectively.

Short-term bank borrowings consisted of the following at September 30, 2021:

Bank Name	Amount - RMB	Amount - USD	Issuance Date	Expiration Date	Interest
Bank of China	5,650,000	876,866	2021-08-30	2022-08-26	5.27 %
Bank of China	4,250,000	659,590	2021-09-06	2022-09-01	5.27 %
China Merchants Bank	7,000,000	1,086,383	2021-05-25	2021-11-24	4.55 %
China Merchants Bank	5,000,000	775,988	2021-05-31	2021-11-24	4.55 %
China Merchants Bank	4,000,000	620,790	2021-06-09	2021-11-24	4.55 %
Industrial Bank	6,000,000	931,185	2021-02-01	2022-02-01	5.22 %
Industrial Bank	7,000,000	1,086,383	2021-02-02	2022-01-26	5.22 %
China Minsheng Bank	45,000,000	6,983,890	2021-03-24	2022-03-20	4.50 %
China Minsheng Bank	9,000,000	1,396,778	2021-03-26	2022-03-20	4.50 %
China Minsheng Bank	3,000,000	465,593	2021-03-31	2022-03-20	4.50 %
China Minsheng Bank	4,000,000	620,790	2021-05-18	2022-05-18	4.50 %
China Minsheng Bank	5,000,000	775,988	2021-06-17	2022-06-10	3.50 %
China Minsheng Bank	5,000,000	775,988	2021-08-12	2022-08-11	3.50 %
China Minsheng Bank	5,000,000	775,988	2021-06-21	2022-06-23	3.50 %
CZBANK	980,000	152,094	2020-12-16	2021-11-18	5.50 %
CZBANK	1,000,000	155,198	2021-07-15	2022-04-07	5.60 %
CZBANK	4,600,000	713,909	2020-12-14	2021-11-11	5.50 %
CZBANK	2,140,000	332,123	2020-11-25	2021-11-09	5.50 %
CZBANK	1,960,000	304,187	2020-11-17	2021-11-02	5.80 %
CZBANK	1,275,000	197,877	2020-11-18	2021-11-04	5.80 %
CZBANK	2,000,000	310,395	2020-12-16	2021-11-16	5.50 %
CZBANK	2,000,000	310,395	2021-04-13	2022-04-11	6.00 %
Bank of Communications	7,000,000	1,086,383	2021-07-15	2022-07-06	4.65 %
Total	<u>137,855,000</u>	<u>21,394,761</u>			



Short-term bank borrowings consisted of the following at September 30, 2020:

Bank Name	Amount - RMB	Amount - USD	Issuance Date	Expiration Date	Interest
Agricultural Bank - Longwan Branch	1,300,000	191,469	7/1/2020	6/1/2021	5.10 %
Agricultural Bank - Longwan Branch	3,000,000	441,852	2/28/2020	2/1/2021	2.85 %
Agricultural Bank - Longwan Branch	5,750,000	846,883	7/9/2020	7/1/2021	5.10 %
Agricultural Bank - Longwan Branch	6,000,000	883,704	8/10/2020	8/1/2021	5.10 %
Agricultural Bank - Longwan Branch	6,190,000	911,688	11/4/2019	11/1/2020	5.66 %
Agricultural Bank - Longwan Branch	7,580,000	1,116,413	8/14/2020	8/13/2021	5.10 %
Agricultural Bank - Longwan Branch	8,000,000	1,178,273	11/13/2019	11/11/2020	5.66 %
Agricultural Bank - Longwan Branch	8,700,000	1,281,372	12/23/2019	12/1/2020	5.70 %
Bank of China	4,250,000	625,957	9/7/2020	9/2/2021	5.27 %
Bank of China	5,750,000	846,883	9/3/2020	8/31/2021	5.27 %
China Merchants Bank	16,500,000	2,430,187	12/13/2019	12/20/2020	4.55 %
Industrial Bank	1,000,000	147,284	6/2/2020	3/2/2021	5.50 %
Industrial Bank	1,900,000	279,840	12/26/2019	12/26/2020	5.22 %
Industrial Bank	3,000,000	441,852	11/1/2019	10/21/2020	6.00 %
Industrial Bank	5,000,000	736,420	10/30/2019	10/30/2020	6.00 %
Industrial Bank	5,000,000	736,420	10/31/2019	10/26/2020	6.00 %
China Minsheng Bank	2,800,000	412,395	6/11/2020	6/11/2021	5.80 %
China Minsheng Bank	3,000,000	441,852	6/12/2020	6/12/2021	5.80 %
CZBANK	550,000	81,006	4/9/2020	11/26/2020	6.00 %
CZBANK	1,105,000	162,749	4/13/2020	11/20/2020	6.00 %
CZBANK	1,580,000	232,709	4/16/2020	11/23/2020	6.00 %
CZBANK	2,140,000	315,188	4/10/2020	12/10/2020	6.00 %
CZBANK	2,970,000	437,434	4/10/2020	1/6/2021	6.00 %
CZBANK	4,610,000	678,980	4/17/2020	12/24/2020	6.00 %
CZBANK	1,980,000	291,622	4/13/2020	10/23/2020	6.00 %
Bank of Communications	3,300,000	486,037	2/13/2020	2/9/2021	6.15 %
Bank of Communications	5,000,000	736,425	2/11/2020	2/9/2021	6.15 %
<b>Total</b>	<b><u>117,955,000</u></b>	<b><u>17,372,894</u></b>			

Short-term bank borrowings consisted of the following at September 30, 2019:

Bank Name	Amount - RMB	Amount - USD	Issuance Date	Expiration Date	Interest
Agricultural Bank - Longwan Branch	6,190,000	866,013	11/5/2018	11/1/2019	6.09 %
Agricultural Bank - Longwan Branch	8,000,000	1,119,241	11/19/2018	11/18/2019	6.09 %
Agricultural Bank - Longwan Branch	8,700,000	1,217,175	1/2/2019	1/1/2020	6.09 %
Agricultural Bank - Longwan Branch	5,750,000	804,455	7/23/2019	7/22/2020	6.65 %
Agricultural Bank - Longwan Branch	4,300,000	601,592	8/1/2019	7/1/2020	6.65 %
Agricultural Bank - Longwan Branch	6,000,000	839,431	8/26/2019	8/25/2020	5.66 %
Bank of China	2,850,000	398,730	9/11/2019	9/9/2020	5.27 %
Bank of China	4,250,000	594,597	9/24/2019	9/22/2020	5.27 %
Bank of China	3,400,000	475,677	9/20/2019	9/18/2020	5.27 %
China Merchants Bank	13,500,000	1,888,719	12/14/2018	12/9/2019	5.44 %
China Merchants Bank	3,000,000	419,715	3/20/2019	12/9/2019	5.44 %
China Merchants Bank	1,955,000	273,516	9/3/2019	2/29/2020	4.35 %
Industrial Bank	1,000,000	139,905	12/5/2018	12/4/2019	6.50 %
Industrial Bank	7,000,000	979,336	11/8/2018	11/8/2019	6.50 %
Industrial Bank	6,000,000	839,431	11/12/2018	11/5/2019	6.50 %
China Minsheng Bank	3,000,000	419,715	6/19/2019	6/19/2020	6.74 %
China Minsheng Bank	2,880,000	402,927	6/20/2019	6/20/2020	6.74 %
Ping An Bank	3,600,000	503,659	9/20/2019	9/20/2020	7.96 %
CZBANK	3,200,000	447,696	8/9/2019	4/10/2020	6.00 %
CZBANK	4,700,000	657,554	8/14/2019	4/14/2020	6.00 %
CZBANK	1,500,000	209,858	8/12/2019	4/14/2020	6.09 %
CZBANK	1,000,000	139,905	9/11/2019	4/9/2020	6.00 %
CZBANK	3,000,000	419,715	9/12/2019	4/13/2020	6.00 %
CZBANK	2,600,000	363,753	9/17/2019	4/10/2020	6.00 %
Bank of Communications	4,500,000	629,573	7/25/2019	2/20/2020	7.80 %
Bank of Communications	4,500,000	629,573	7/26/2019	2/20/2020	7.40 %
<b>Total</b>	<b>116,375,000</b>	<b>16,281,461</b>			

These short-term bank borrowings are secured by the pledged assets listed below, and are guaranteed by certain shareholders, shareholders' immediate family members and third-parties.

	As of September 30,	
	2021	2020
Accounts receivable	\$ 2,053,490	\$ 1,829,454
Buildings, net	4,508,834	4,409,238
Land use rights, net	419,721	411,067
Machinery, net	92,761	95,078
Inventory	2,793,556	2,651,113
Total	\$ 9,868,362	\$ 9,395,950

### C. Research and development, patents and licenses

#### Research and Development

For the years ended September 30, 2021, 2020, and 2019 we spent \$1,234,161, \$1,123,555 and \$1,452,061 respectively, on R&D. We anticipate that we will focus our research and development efforts on improving existing products and developing new technology in the coming years.

The Research and Development team has 14 dedicated researchers and analysts focusing on mechanical design, mechatronics, CAD design, mold design and welding. Quality control is an important aspect of the team's work and ensuring quality at every stage of the process has been a key driver in maintaining and developing brand value for the Company.

#### **D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on our net revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition or results of operations.

#### **E. Critical Accounting Estimates**

##### **Use of Estimates**

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include, but are not limited to, allowances of accounts receivable, inventory valuation, useful life of property, plant and equipment and income taxes related to realization of deferred tax assets and uncertain tax position. Actual results could differ from those estimates.

##### **Long-term investments**

Effective October 1, 2020, the Company adopted Accounting Standards Update (“ASU”) 2016-01 and related ASU 2018-03 concerning recognition and measurement of financial assets and financial liabilities. In adopting this new guidance, the Company has made an accounting policy election to adopt an adjusted cost method measurement alternative for investments in equity securities without readily determinable fair values.

For equity investments that are accounted for using the measurement alternative, the Company initially records equity investments at cost but is required to adjust the carrying value of such equity investments through earnings when there is an observable transaction involving the same or a similar investment with the same issuer or upon an impairment.

##### **Accounts Receivable, net**

Accounts receivable arise from the product sales in the normal course of business. The Company usually determines the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. The Company establishes a provision for doubtful receivables when there is objective evidence that the Company may not be able to collect amounts due. The allowance is based on management’s best estimates of specific losses on individual exposures. Based on management of customers’ credit and ongoing relationship, management makes conclusions whether any balances outstanding at the end of the period will be deemed uncollectible on an individual basis and on aging analysis basis. The provision is recorded against accounts receivables balances, with a corresponding charge recorded in the consolidated statements of income and comprehensive income. Uncollectible receivable are written-off against the allowance for doubtful accounts after management has determined that the likelihood of collection is not probable.

##### **Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is principally determined using the weighted-average method. The Company records adjustments to inventory for excess quantities, obsolescence or impairment when appropriate to reflect inventory at net realizable value. These adjustments are based upon a combination of factors including current sales volume, market conditions, lower of cost or market analysis and expected realizable value of the inventory.

##### **Advance to Suppliers and Advance from Customers**

Advance to suppliers refer to advances for purchase of materials or other service agreements, which are applied against trade accounts payable when the materials or services are received. Advance from customers refer to advances received from customers regarding product sales, which are applied against accounts receivable when products are sold.

The Company reviews a supplier’s credit history and background information before advancing a payment. If the financial condition of its suppliers were to deteriorate, resulting in an impairment of their ability to deliver goods or provide services, the Company would write off such amount in the period when it is considered impaired.

### **Impairment of Long-lived Assets**

The Company management review the carrying values of long-lived assets whenever events and circumstances, such as a significant decline in the asset's market value, obsolescence or physical damage affecting the asset, significant adverse changes in the assets use, deterioration in the expected level of the assets performance, cash flows for maintaining the asset are higher than forecast, indicate that the net book value of an asset may not be recovered through expected future cash flows from its use and eventual disposition. If the estimated cash flows from the use of the asset and its eventual disposition are below the asset's carrying value, then the asset is deemed to be impaired and written down to its fair value.

### **Leases**

Effective October 1, 2019, the Company accounts for its leases under ASC 842, Leases ("ASC 842"). Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases, and are recorded on the consolidated balance sheet as both a right of use asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right of use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right of use asset result in straight-line rent expense over the lease term.

In calculating the right of use asset and lease liability, the Company elects to combine lease and non-lease components as permitted under ASC 842. The Company excludes short-term leases having initial terms of 12 months or less from the new guidance as an accounting policy election and recognizes rent expense on a straight-line basis over the lease term.

The Company continues to account for leases in the prior period financial statements under ASC Topic 840.

### **Value-added Tax**

Value-added taxes ("VAT") collected from customers relating to product sales and remitted to governmental authorities are presented on a net basis. VAT collected from customers is excluded from revenue. The Company is subject to a VAT rate of 17% before May 1, 2018, a VAT rate of 16% effective on May 1, 2018, and the most current VAT rate of 13% effective on April 1, 2019. The VAT payable may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing or acquiring its finished products.

### **Convertible note, net**

The Company evaluated the convertible notes issued pursuant to the ASC 470-20-25-4 Beneficial Conversion Feature ("BCF") guidance. The BCF was measured the intrinsic values for convertible notes on the commitment dates, which are the dates that the agreements were signed with the investors. The Company's convertible notes both have stated redemption dates (maturity dates), which are 12 months from the issuance dates, the BCF values will be accreted from issuance date to the conversion date or the stated maturity date, whichever is earlier. The accretion calculation is based on effective interest rate method consistent with the ordinary debt instruments.

### **Stock-based compensation**

The Company accounts for share-based payment exchanged for services at the estimated grant date fair value. The Company estimates the fair value of stock option grants using the Black-Scholes option pricing model and the Company estimates the stock warrants by performing Monte Carlo simulation analysis to calculate the fair value of the committed warrants. The Company's share price was simulated under a risk-neutral framework using Geometric Brownian Motion ("GBM"). The daily share price was simulated from the valuation date through to the latest expiry date. The assumptions used in calculating the fair value of stock-based compensation represent management's best estimates and involve inherent uncertainties and the application of management's judgment.

*Expected Term* - The expected term of options represents the period that the Company's stock option are expected to be outstanding based on the simplified method, which is the half-life from vesting to the end of its contractual term.

*Expected Volatility* - The Company computes stock price volatility over expected terms based on its historical common stock trading prices.

*Risk-Free Interest Rate* - The Company bases the risk-free interest rate on the implied yield available on U. S. Treasury zero-coupon issues with an equivalent remaining term.

*Expected Dividend* - The Company has never declared or paid any cash dividends on its common shares and does not plan to pay cash dividends in the foreseeable future, and, therefore, uses an expected dividend yield of zero in its valuation models.

### **Revenue Recognition**

The Company generates its revenues mainly from sales of steel piping products and sales of steel materials such as stainless steel coil and strip. The Company follows Financial Accounting Standards Board (FASB) ASC 606 and accounting standards updates (“ASU”) 2014-09 for revenue recognition. On October 1, 2018, the Company has early adopted ASC 606, which is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company considers revenue realized or realizable and earned when all the five following criteria are met: (1) Identify the Contract with a Customer, (2) Identify the Performance Obligations in the Contract, (3) Determine the Transaction Price, (4) Allocate the Transaction Price to the Performance Obligations in the Contract, and (5) Recognize Revenue When (or As) the Entity Satisfies a Performance Obligation. Results for reporting periods beginning after October 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the previous accounting standards ASC 605. The Company has assessed the impact of the guidance by reviewing its existing customer contracts and current accounting policies and practices to identify differences that will result from applying the new requirements, including the evaluation of its performance obligations, transaction price, customer payments, transfer of control and principal versus agent considerations. Based on the assessment, the Company concluded that there was no change to the timing and pattern of revenue recognition for its current revenue streams in scope of Topic 606 and there was no material unfinished contracts with customers upon adoption of ASC 606, therefore there was no material changes to the Company’s consolidated financial statements upon adoption of ASC 606, and there have not been any significant changes to company’s business processes, systems, or internal controls as a result of implementing the standard.

The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. As part of its consideration of the contract, the Company evaluates certain factors including the customer’s ability to pay (or credit risk). For each contract, the Company considers the promise to transfer products, each of which are distinct, to be the identified performance obligations.

In determining the transaction price the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. The Company has assessed the financing component on contract basis, and conclude there is no significant financing component exist either implicitly or explicitly. The Company allocates the transaction price to each distinct product based on their relative standalone selling price.

Revenues are reported net of all value added taxes. The Company does not routinely permit customers to return products, while in certain conditions product changes are allowed, and historically customer returns have been immaterial and due to the nature of company’s products no warranty is offered. Revenue is recognized when control of the product is transferred to the customer (i.e., when the Company’s performance obligation is satisfied at a point in time), which typically occurs at delivery.

Since February 2021, xSigma Corporation launched a stable coin exchange platform which is built on smart contract. Liquidity provider who provides liquidity for certain stable coin on the exchange is awarded a certain amount of SIG token, a governance token issued by the smart contract. The SIG holder is entitled to the commission revenue generated by the exchange and as the project founder xSigma Corporation is holding 30% all SIG token issued and outstanding. Though SIG was listed on one cryptocurrency exchange and has public market price, however due to the token’s low trading volume and unstable market price the Company decides not to recognize revenue for the token it owned until monetization of the token. There is currently no specific definitive guidance under GAAP or alternative accounting framework for the accounting for digital currencies recognized as revenue or held, and management has exercised significant judgment in determining the appropriate accounting treatment. In the event authoritative guidance is enacted by the FASB, the Company may be required to change its policies, which could have an effect on the Company’s consolidated financial position and results from operations.

### **Income Taxes**

The Company accounts for income taxes using the asset and liability method whereby it calculates deferred tax assets or liabilities for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying enacted tax rates applicable to the years in which those temporary differences are expected to be reversed or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as non-current amounts.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

**F. Tabular Disclosure of Contractual Obligations**

The following table sets forth our contractual obligations as of September 30, 2021:

Contractual Obligations	Payment Due by Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Short-term bank loans*	\$ 21,394,761	\$ 21,394,761	\$ —	\$ —	\$ —
Other borrowings	283,758	283,758	—	—	—
Lease liabilities	54,166	26,332	27,834	—	—
<b>Total</b>	<b>\$ 21,732,685</b>	<b>\$ 21,704,851</b>	<b>\$ 27,834</b>	<b>\$ —</b>	<b>\$ —</b>

\* The numbers in the table are principle only and exclude interest payable.

**G. Safe Harbor**

See “SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS.”

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**A. Directors and Senior Management**

Name	Age	Position(s)
Jiancong Huang	58	Chief Executive Officer and Chairman of the Board
Shaochai Yang	41	Chief Financial Officer
Di Chen	31	Secretary
Guolin Wang	53	Director
Xuejie Lyu	31	Independent Director & Chairman of the Audit Committee
Lie Cao	44	Independent Director
Linge Zhou	43	Independent Director

The business address of each of the officers and directors is c/o Zhejiang Zhengkang Industrial Co., Ltd., No. 678 Dingxiang Road, Binhai Industrial Park, Economic and Technology Development Zone, Wenzhou, Zhejiang, P.R. China 325025.

**Jiancong Huang.** Mr. Huang is one of the co-founders of our Company and has served as the Chief Executive Officer and Chairman of the Board since the beginning. Mr. Huang has extensive experience in manufacturing industry and held President position in two companies before Zhengkang was founded. He earned his EMBA from Renmin University of China and Engineering Professional Title, and was awarded as Top10 Wenzhou Entrepreneurship and appointed to be the Vice Director of China Construction and Building Standard and Safety Committee. He is also members of National Pipe Standard Committee and National Building Water Supply and Waste Standard Committee. Mr. Huang is an experienced corporate strategist and visionary with decades of experience on corporate management and innovation. He has a systematic ideology on the future of stainless steel pipe in the water and gas supply area. We believe his influence and expertise in the industry will greatly contribute to the growth of company and industry.

**Shaochai Yang.** Ms. Yang has more than 10 years experience in accounting and financial management. Prior to joining the company, she worked as the CFO at Kaidishi Industrial from 2009 to 2016, a company focuses on developing and manufacturing electrical lock and biometric fingerprint scanner, where she oversaw the day-to-day operations of accounting department. She worked as CFO at Weiduli Valve from 2002 to 2009, a company manufacturing valve and piping products. Through years of career in accounting and management, she has acquired extensive experience in manufacturing industry from her past career in various medium to large enterprises. Ms. Yang received her Bachelor degree in business administration from China Computer Science College with the major in Accounting.

**Di Chen.** Prior to joining the company at 2017, Mr. Chen served as the Senior Associate at Pacific Seaboard Investment, a corporate advisory firm based in Canada that focuses on guiding clients through IPO, M&A and private placement investments, for two years. His position focuses on leading the team to conduct industry research, due diligence, financial consulting, and preparing regulatory reporting. From 2012 to 2014 he worked as the accounting manager in Azizmalco, a property management company in Canada, where he oversaw the accounting department of Azizmalco's subsidiaries. He received his Bachelor degree in Commerce from Lakehead University with the major in Accounting. His past experience provided him with a solid understanding of IFRS accounting principles, corporate finance, SEC regulations, company valuation and presentation and investor relationship management.

**Guolin Wang.** Mr. Wang is one of the co-founders of our Company. Prior to co-founding our subsidiary Wenzhou Zhengfeng in 1999, he was the head of research department in Wenzhou Shuangling Stainless Steel Co., Ltd. Mr. Wang has extensive experience in stainless steel industry and business administration, and is currently in charge of Company's technical research, production, and exporting. Mr. Wang obtained an EMBA degree from Renmin University of China and is a member of National Building Water Supply and Drainage Committee, as well as that of Wenzhou Building Material Industry Association. Mr. Wang was appointed as a Director for his industry expertise.

**Xuejie Lyu.** Ms. Lyu has been the General Manager of Shanghai Liling, a consulting company based in Shanghai, since 2020, where she provides financial services to both private and public companies, and assists companies going public to improve internal control and compliances to meet regulatory requirements. Prior to her current position, she worked as manager at Investment Banking Department of Shenwan Hongyuan Securities Co., Ltd. from 2016 to 2020 and senior auditor at Deloitte China from 2013 to 2016, where she focused on financial auditing, internal control assessment, and financial consulting. Ms. Lyu has extensive experience in both US GAAP and CAS reporting frameworks, Sarbanes-Oxley compliance, and regulatory compliances. Ms. Lyu was designated with CPA in China and she received her Master Degree in Accounting from University of International Business and Economics.

**Lie Cao.** Mr. Cao currently is the Deputy Secretary General of National Water Supply & Sewerage Standard Committee, a regulatory body setting standard to water supply & sewerage industry, and Director of China Construction Metal Structure Association - Water Supply & Sewerage Division, a national trade association representing the technology and products of Chinese water supply & sewerage industry. Mr. Cao works closely with the government to oversee the water supply and sewerage industry, review and draft industrial technical standard, promote new materials and technology, organize anti-dumping and anti-trust investigation, and organize international communication conferences for the industry. His current and previous positions have provided him with a perspective and understanding on Chinese piping industry, and his management experience offered him a broad leadership and executive experience. We believe Mr. Cao qualifies to be our director because of his industry expertise.

**Linge Zhou.** Ms. Zhou currently is the General Manager of Zhejiang Bestware, a marketing and consulting company based in Hong Kong since 2016, where she focuses on guiding clients to expand business to international markets, including America and European Union. Prior to her current position, she was the General Manager of 121 E-Commerce, a children's fashion company, from 2013 to 2016 where she oversees the operations, branding, and supply chain of the company. Ms. Zhou possesses outstanding experience in marketing, business development and operations. We expect her joining to our board will improve our company's branding and marketing performance and introduce our products to more foreign markets. We believe Ms. Zhou qualifies to be our director because of her experience with business operation.

## **B. Compensation**

### **Director Compensation**

All directors hold office until the next annual meeting of shareholders at which their respective class of directors is re-elected and until their successors have been duly elected and qualified. Officers are elected by and serve at the discretion of the Board of Directors. Employee directors do not receive any compensation for their services. Non-employee directors are entitled to receive such compensation set forth below for serving as directors and may receive stock grants from our company. In addition, non-employee directors are entitled to receive compensation for their actual travel expenses for each Board of Directors meeting attended.

#### **Director Compensation—For the fiscal years ended September 30, 2021 and 2020**

During the fiscal years ended September 30, 2021 and 2020, no member of our board of directors, except the Non-Employee Directors as described below, received compensation in their capacity as directors.

**Director Compensation—Non-Employee Directors**

We entered into service agreement with our independent directors, pursuant to which we have agreed to pay Lie Cao and Linge Zhou cash compensation of \$12,000 per year and our audit committee chairman Xuejie Lyu cash compensation of \$15,200 per year. The salaries are paid quarterly with payroll dates on February 10, May 10, August 10 and November 10 in each year. For each of the fiscal years ended September 30, 2021 and 2020, we paid salaries for 4 quarters.

**Executive Compensation**

Effective since May 22, 2017, our compensation committee is responsible to determine the compensation to be paid to our executive officers based on our financial and operating performance and prospects, and contributions made by the officers to our success. Each of the named officers will be measured by a series of performance criteria by the board of directors, or the compensation committee on a yearly basis. Such criteria will be set forth based on certain objective parameters such as job characteristics, required professionalism, management skills, interpersonal skills, related experience, personal performance and overall corporate performance.

Our compensation committee has adopted a charter for determining the amount of compensation paid to our executive officers. The compensation committee will make an independent evaluation of appropriate compensation to key employees, with input from management and has oversight of executive compensation plans, policies and programs.

**Summary Compensation Table**

The following table presents summary information regarding the total compensation awarded to, earned by, or paid to each of the named executive officers for services rendered to us for the fiscal years ended September 30, 2021 and 2020.

<b>Name and Principal Position</b>	<b>Fiscal Year</b>	<b>Salary (\$)</b>	<b>Bonus (\$)</b>	<b>Stock Awards (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Jiancong Huang (1)	2021	92,206	0	0	0	92,206
<i>Chief Executive Officer</i>	2020	71,371	0	0	0	71,371
Shaochai Yang (2)	2021	35,960	0	0	0	35,960
<i>Chief Financial Officer</i>	2020	15,853	3,611	0	0	19,464
Di Chen (3)	2021	18,441	0	0	0	18,441
<i>Secretary</i>	2020	7,046	3,523	0	0	10,569

- (1) We entered into an indefinite employment agreement with Jiancong Huang on April 15, 2016. Pursuant to the agreement, Mr. Huang has accepted the position of Chief Executive Officer and we have agreed to pay Mr. Huang an annual salary of RMB 600,000 (approximately \$92,206).
- (2) We entered into an employment agreement with Shaochai Yang. Pursuant to the agreement, Ms. Yang has accepted the position of Chief Financial Officer and we have agreed to pay Ms. Yang an annual salary of RMB 234,000 (approximately \$35,960).
- (3) We entered into an employment agreement with Di Chen. Pursuant to the agreement, Mr. Chen has accepted the position of Secretary and we have agreed to pay Mr. Chen an annual salary of RMB 120,000 (approximately \$18,441).

**Employment Agreements**

Our employment agreements with our officers generally provide for employment for a specific term (typically approximately three years at a time) and pay annual salary, health insurance, pension insurance, and paid vacation and family leave time. The agreement may be terminated by either party as permitted by law. In the event of any termination of the agreement by our company that results in violation of applicable labor laws, we shall pay the employee all damages incurred from such termination. In the event of a breach or termination causing loss to our company by the employee, the employee shall pay all economic loss we had incurred as a result.

**C. Board Practices****Election of Officers**

Our executive officers are appointed by, and serve at the discretion of, our board of directors, including our Chief Executive Officer Jiancong Huang, Chief Financial Officer Shaochai Yang and Secretary Di Chen. There is no family relationship among any of our directors or executive officers.



## Board of Directors

Our board of directors currently consists of 5 directors, a majority of whom are independent as such term is defined by the Nasdaq Capital Market.

A director may vote in respect of any contract or transaction in which he is interested, provided, however that the nature of the interest of any director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote on that matter. A general notice or disclosure to the directors or otherwise contained in the minutes of a meeting or a written resolution of the directors or any committee thereof of the nature of a director's interest shall be sufficient disclosure and after such general notice it shall not be necessary to give special notice relating to any particular transaction. A director may be counted for a quorum upon a motion in respect of any contract or arrangement which he shall make with our company, or in which he is so interested and may vote on such motion.

Mr. Jiancong Huang currently holds the positions of Chief Executive Officer and Chairman of the Board. These two positions have not been consolidated into one position; Mr. Huang simply holds both positions at this time. We do not have a lead independent director because of the foregoing reason and also because we believe our independent directors are encouraged to freely voice their opinions on a relatively small company board. We believe this leadership structure is appropriate because we are a relatively small company in the process of listing on a public exchange; as such we deem it appropriate to be able to benefit from the guidance of Mr. Huang as both our principal executive officer and Chair of the Board. Our board of directors plays a key role in our risk oversight. The board of directors makes all relevant Company decisions. As a smaller company with a small board of directors, we believe it is appropriate to have the involvement and input of all of our directors in risk oversight matters.

## Corporate Governance

The business and affairs of the company are managed under the direction of our Board. We have conducted Board meetings regularly since inception. Each of our directors has attended all meetings either in person, via telephone conference, or through written consent for special meetings. In addition to the contact information in this annual report, the Board has adopted procedures for communication with the officers and directors on May 22, 2017. Stockholders will be given specific information on how he/she can direct communications to the officers and directors of the Company at our annual stockholders' meetings. All communications from stockholders are relayed to the members of the Board.

## Board Committees

We have established and adopted charters for five standing committees under the board: the Audit Committee, the Compensation Committee, the Nomination Committee, Governance Committees and Enterprise Risk Oversight Committee. Except for the Enterprise Risk Oversight Committee, each Committee consists of only independent directors of the Company. The Board also adopted charters for i) the Enterprise and Risk Oversight Committee, ii) Risk and Information Security Committee, iii) Social Media Committee, and iv) Regulatory, Compliance & Government Affairs Committee. The charters will be implemented upon formation of each respective committee.

- **Audit Committee:** Xuejie Lyu (Chair), Linge Zhou, Lie Cao
- **Compensation Committee:** Xuejie Lyu (Chair), Linge Zhou, Lie Cao
- **Nomination Committee:** Lie Cao (Chair), Xuejie Lyu, Linge Zhou
- **Governance Committee:** Linge Zhou (Chair), Lie Cao, Xuejie Lyu
- **Enterprise Risk Oversight Committee:** Jiancong Huang (Chair), Lie Cao, Xuejie Lyu, Linge Zhou, Guolin Wang

The Board also adopted an insider trading policy that allows insiders to sell securities of the Company pursuant to pre-arranged trading plans.

This insider trading policy was put into place because effective October 23, 2000, the Securities and Exchange Commission (the "SEC") adopted rules related to insider trading. One of these rules, Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, provides an exemption to the insider trading rules in the form of an affirmative defense. Rule 10b5-1 recognizes the creation of formal programs under which executives and other insiders may sell the securities of publicly traded companies on a regular basis pursuant to written plans that are entered into at a time when the plan participants are not aware of material non-public information and that otherwise comply with the requirements of Rule 10b5-1.

The Board also adopted a written disclosure policy, which applies to all directors, officers and employees of the Company and its wholly owned subsidiaries, to ensure that communications to the investing public about the Company are timely, factual and accurate and are broadly disseminated in accordance with all applicable legal and regulatory requirements.

In addition, the Board adopted a whistleblower procedure that provides the Audit Committee the responsibility to ensure proper procedure of the receipt, retention, and treatment of complaints about the Company's accounting, internal accounting controls, or auditing matters. The Audit Committee must also provide for confidential, anonymous submission by the Company's employees of concerns about questionable accounting or auditing matters.

Lastly, the Board adopted a corporate governance policy for its website content, as well as procedures for shareholder's communication with Directors. With all of the above referenced charters and procedures in place, the Company is committed to corporate governance practices that are compliance with applicable laws, regulations and exchange requirements.

The functions of each committee the Company formed and adopted charters for as of the date of this annual report are described below:

#### **Audit Committee**

The Audit Committee shall make such examinations as are necessary to monitor the corporate financial reporting and external audits of the Company and its subsidiaries; to provide to the Board the results of its examinations and recommendations derived therefrom; to outline to the Board improvements made, or to be made, in internal accounting controls; to nominate an independent auditor; and to provide to the Board such additional information and materials as it may deem necessary to make the Board aware of significant financial matters requiring Board attention.

#### **Compensation Committee**

The purpose of the Compensation Committee is to review and make recommendations to the Board regarding all forms of compensation to be provided to the executive officers and directors of the Company, including stock compensation and loans, and all bonus and stock compensation to all employees.

#### **Nomination Committee**

The purpose of the Nomination Committee shall be to review and make recommendations to the Board regarding matters concerning corporate governance; review the composition of and evaluate the performance of the Board; recommend persons for election to the Board and evaluate director compensation; review the composition of committees of the Board and recommend persons to be members of such committees; review and maintain compliance of committee membership with applicable regulatory requirements; and review conflicts of interest of members of the Board and corporate officers.

#### **Governance Committee**

The Governance Committee shall be responsible for developing Company's approach to the Board and corporate governance issues; helping to maintain an effective working relationship between the Board and management; exercising, within the limits imposed by the by-laws of the Company, by applicable laws, and by the Board, the powers of the Board for the management and direction of the affairs of the Company during the intervals between meetings of the Board; reviewing and making recommendations to the Board for the appointment of senior executives of the Company and for considering their terms of employment; reviewing succession planning, matters of compensation; recommending awards under the Company's long term and short term incentive plans; assuming the role of administrator, whether by delegation or by statute, for the corporate-sponsored registered pension plans and the Supplementary Executive Retirement Plan of the Company and its wholly-owned subsidiaries and any future, additional or replacement plans relating to the plans; and monitoring the investment performance of the trust funds for the plans and compliance with applicable legislation and investment policies.

The Governance Committee shall also review any "red flags" or issues that may arise out of the Compensation Committee compensation and award recommendations and report them to the board of directors. The Compensation Committee and Governance Committee, at times, may be collaborative but will not coordinate as the process is intended to be a "checks and balance" approach. It is being set up as an internal control mechanism that would safeguard against fraud and errors due to omission.

### **Enterprise Risk Oversight Committee**

The Enterprise Risk Oversight Committee shall oversee the effectiveness of risk management policies, procedures and practices implemented by management of the Corporation with respect to strategic, operational, environmental, health and safety, human resources, legal and compliance and other risks faced by the Corporation. The committee shall i) review executive management's assessment of the company's material risk exposures and the company's actions to identify, monitor and mitigate such exposures, ii) review executive management's implementation of systems and controls designed to promote compliance with applicable legal and regulatory requirements, iii) report to the Board on an annual basis with respect to the committee's review of the company's material risks and measures in place to mitigate them, and at least annually in respect of the committee's other activities.

Copy of our committee charters available on our corporate investor relations website at [www.zkinternationalgroup.com](http://www.zkinternationalgroup.com).

### **Duties of Directors**

Under British Virgin Islands law, our directors have a duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. We have the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

- appointing officers and determining the term of office of the officers;
- authorizing the payment of donations to religious, charitable, public or other bodies, clubs, funds or associations as deemed advisable;
- exercising the borrowing powers of the company and mortgaging the property of the company;
- executing checks, promissory notes and other negotiable instruments on behalf of the company; and
- maintaining or registering a register of mortgages, charges or other encumbrances of the company.

### **Interested Transactions**

A director may vote, attend a board meeting or sign a document on our behalf with respect to any contract or transaction in which he or she is interested. A director must promptly disclose the interest to all other directors after becoming aware of the fact that he or she is interested in a transaction we have entered into or are to enter into. A general notice or disclosure to the board or otherwise contained in the minutes of a meeting or a written resolution of the board or any committee of the board that a director is a shareholder, director, officer or trustee of any specified firm or company and is to be regarded as interested in any transaction with such firm or company will be sufficient disclosure, and, after such general notice, it will not be necessary to give special notice relating to any particular transaction.

### **Remuneration and Borrowing**

The directors may receive such remuneration as our board of directors may determine from time to time. Each director is entitled to be repaid or prepaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred in attending meetings of our board of directors or committees of our board of directors or shareholder meetings or otherwise in connection with the discharge of his or her duties as a director. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors. Our board of directors may exercise all the powers of the company to borrow money and to mortgage or charge our undertakings and property or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party.

### **Qualification**

There are no membership qualifications for directors. Further, there are no share ownership qualifications for directors unless so fixed by us in a general meeting. There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

## **Director Compensation**

Employee directors do not receive any compensation for their services. Non-employee directors are entitled to receive an as-yet undetermined cash fee for serving as directors and may receive option grants from our company. In addition, non-employee directors are entitled to receive compensation for their actual travel expenses for each board of directors meeting attended.

## **Terms of Directors and Officers**

All directors hold office until the next annual meeting of shareholders at which they would be recommended for re-election by the shareholders and until their successors have been duly elected and qualified. Officers are elected by and serve at the discretion of the board of directors. Our directors may be elected by a resolution of our board of directors, or by an ordinary resolution of our shareholders. Each of our directors will hold office until the expiration of his or her term as provided in the written agreement with our company, if any, and until his or her successor has been elected or appointed. A director will cease to be a director if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found by our company to be or becomes of unsound mind, (iii) resigns his office by notice in writing to the company, or (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our directors resolve that his office be vacated. Our officers are elected by and serve at the discretion of the board of directors.

## **Limitation of Director and Officer Liability**

Under British Virgin Islands law, each of our directors and officers, in performing his or her functions, is required to act honestly and in good faith with a view to our best interests and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. British Virgin Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any indemnification provision may be held by the British Virgin Islands courts to be contrary to public policy (for example, a provision for indemnification against civil fraud or the consequences of committing a crime).

Under our memorandum and articles of association, we may indemnify our directors against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with civil, criminal, administrative or investigative proceedings to which they are party or are threatened to be made a party by reason of their acting as our directors. To be entitled to indemnification, these persons must have acted honestly and in good faith with a view to the best interests of the company and, in the case of criminal proceedings, they must have had no reasonable cause to believe their conduct was unlawful. The decision of our board of directors as to whether such a person acted honestly and in good faith with a view to the best interests of the company and as to whether the person had no reasonable cause to believe that his or her conduct was unlawful is, in the absence of fraud, sufficient for the purposes of the indemnification, unless a question of law is involved. The termination of any proceedings by any judgment, order, settlement, conviction or the entry of no plea does not, by itself, create a presumption that a director did not act honestly and in good faith and with a view to our best interests or that the director had reasonable cause to believe that his or her conduct was unlawful. Such limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission. These provisions will not limit the liability of directors under United States federal securities laws.

We may indemnify anyone serving at our request as a director of another entity against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings. To be entitled to indemnification, such a person must have acted honestly and in good faith with the view to our best interests and, in the case of criminal proceedings, must have had no reasonable cause to believe that his or her conduct was unlawful. The decision of our board of directors as to whether the person acted honestly and in good faith with a view to our best interests and as to whether the person had no reasonable cause to believe that his or her conduct was unlawful, is in the absence of fraud sufficient for the purposes of indemnification, unless a question of law is involved. The termination of any proceedings by any judgment, order, settlement, conviction or the entry of no plea does not, by itself, create a presumption that the person did not act honestly and in good faith and with a view to our best interests or that the person had reasonable cause to believe that his or her conduct was unlawful.

We may purchase and maintain insurance in relation to any of our directors or officers against any liability asserted against the directors or officers and incurred by the directors or officers in that capacity, whether or not we have or would have had the power to indemnify the directors or officers against the liability as provided in our memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors, officers or persons controlling our company under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

## **Involvement in Certain Legal Proceedings**

To the best of our knowledge, none of our directors or officers has been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors, nor has any been a party to any judicial or administrative proceeding during the past five years that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws, except for matters that were dismissed without sanction or settlement. Except as set forth in our discussion below in “Related Party Transactions,” our directors and officers have not been involved in any transactions with us or any of our affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

## **D. Employees**

As of September 30, 2021, we employed a total of 271 employees, including 8 within management, 7 within the Research and Development Department, 114 within the Production Department, 7 within the Sales Department and 15 within the Administrative Support Department. Our employees are not represented by a labor organization or covered by a collective bargaining agreement. We have not experienced any work stoppages. As of January 1, 2022, we employed a total of 271 employees, including 8 within management, 7 within the Research and Development Department, 114 within the Production Department, 7 within the Sales Department and 15 within the Administrative Support Department. We are required under PRC law to make contributions to employee benefit plans at specified percentages of our after-tax profit. In addition, we are required by PRC law to cover employees in China with various types of social insurance. All of our employees are covered by worker compensation insurance arising from any job-related injuries. With respect to retirement benefits, as most of our employees are from other cities outside of Wenzhou where their retirement insurances are registered locally at their respective hometowns. The authorities in Wenzhou have instead required companies in Wenzhou to increase their coverage for Migrant Workers Medical Insurance in order to improve workers’ employment welfare. 100% of our employees are covered by the five statutory social benefits, and 100% are covered by Occupational Injury Insurance. Companies are not required to make contribution to the local Housing Pension in Wenzhou for the employees and since most employees are from other regions outside of Wenzhou, most of them have opted out. Currently, we are making contribution to the Housing Pension for 17 employees.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. Major Shareholders**

The following table sets forth information with respect to beneficial ownership of our Ordinary Shares as of January 28, 2022 by:

- Each person who is known by us to beneficially own more than 5% of our outstanding Ordinary Shares;
- Each of our director, director nominees and named executive officers; and
- All directors and named executive officers as a group.

The number and percentage of Ordinary Shares beneficially owned are based on 28,985,740 Ordinary Shares issued and outstanding as of January 28, 2022. Information with respect to beneficial ownership has been furnished by each director, officer or beneficial owner of more than 5% of our Ordinary Shares. Beneficial ownership is determined in accordance with the rules of the SEC and generally requires that such person have voting or investment power with respect to securities. In computing the number of Ordinary Shares beneficially owned by a person listed below and the percentage ownership of such person, Ordinary Shares underlying options, warrants or convertible securities held by each such person that are exercisable or convertible within 60 days of January 28, 2022 are deemed outstanding, but are not deemed outstanding for computing the percentage ownership of any other person. Except as otherwise indicated in the footnotes to this table, or as required by applicable community property laws, all persons listed have sole voting and investment power for all Ordinary Shares shown as beneficially owned by them. Unless otherwise indicated in the footnotes, the address for each principal shareholder is in the care of our Company at No. 678 Dingxiang Road, Binhai Industrial Park, Economic & Technology Development Zone, Wenzhou, P.R. China 325020. As of January 28, 2022, we have 130 shareholders of record.

<b>Named Executive Officers and Directors</b>	<b>Amount of Beneficial Ownership <sup>(1)</sup></b>	<b>Percentage Ownership <sup>(2)</sup></b>
<b>Directors and Named Executive Officers:</b>		
Jiancong Huang, Chief Executive Officer and Chairman (3) (4)	8,644,875	29.82 %
Shaochai Yang, Chief Financial Officer	0	— %
Di Chen, Secretary	0	— %
Guolin Wang, Director (4)	1,800,000	6.21 %
Xuejie Lyu, Director	0	— %
Lie Cao, Director	0	— %
Linge Zhou, Director	0	— %
<b>All directors and executive officers as a group (7 persons)</b>	<b>8,644,875</b>	<b>29.82 %</b>
<b>5% Beneficial Owners:</b>		
Mingjie Wang (4)	1,800,000	6.21 %

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the ordinary shares. All shares represent only ordinary shares held by shareholders as no options are issued or outstanding.
- (2) Calculation based on 28,985,740 ordinary shares issued and outstanding as of January 28 2022.
- (3) Mr. Huang individually holds 4,864,875 ordinary shares of the Company. He has been appointed as proxy for shares held by individuals noted in footnote (4).
- (4) Individuals who entered into an agreement to vote in concert in ZK International on May 13, 2015. There is another individual holding 180,000 ordinary shares as of January 28, 2022 who is also a party to the agreement. Pursuant to the agreement, which has a term of 20 years from its effective date of May 13, 2015, if the parties are unable to reach a unanimous consent in relation to the matters requiring action in concert, a decision made by more than 50% of the voting rights of the parties will be deemed a decision unanimously passed by all parties and will be binding on all parties.

**B. Related Party Transactions**

Net amounts due to related parties consisted of the following as of September 30, 2021 and 2020:

<b>Accounts</b>	<b>Name of related parties</b>	<b>As of September 30,</b>	
		<b>2021</b>	<b>2020</b>
Related party payables	Shareholder, HUANG Jian Cong	\$ 974,216	\$ 1,187,339
Related party payables	Other Affiliates of the Company	98,119	128,464
Due from Related Parties	Other Affiliates of the Company	—	47,135

This represented unsecured, interest free borrowings between the Company and the shareholders. As the majority shareholder of the Company, Jiancong Huang has made his personal funds available to use for working capital needs. The borrowings are mainly for the company to purchase raw materials for productions. For the years end September 30, 2021 and 2020, the Company had outstanding loans with total amount of \$974,216 and \$1,187,339 from its shareholder, HUANG Jian Cong, which have a loan term from October 01, 2017 to September 30, 2021. As of September 30, 2020 the Company had outstanding amount due from one related party with an amount of \$47,135, which was fully collected during fiscal year 2021.

**Interests of experts and counsel**

Not applicable for annual reports on Form 20-F.

**ITEM 8. FINANCIAL INFORMATION**

**A. Consolidated Statements and Other Financial Information**

Please refer to Item 18.

**Legal and Administrative Proceedings**

Except as set forth below and disclosed elsewhere in the annual report, currently there is no legal proceeding pending or threatened against to which we are a party of. However, from time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise.

During 2010, we entered into two loan agreements with Raozhou Dianli Ltd and Xianjin Cao, and advanced RMB 9 million on the first loan and RMB 1.5 million on the second loan, totaled RMB 10.5 million (approximately USD 1.52 million). The terms of these two loans are both one year. Both borrowers defaulted without making any repayment when the terms expired. We later sued these two parties and, pursuant to the final judgement ruled by Jiangsu High People's Court, are entitled to a repayment of RMB 10.5 million plus interest with an interest rate that is four times higher than the normal interest rate in the corresponding period. The claim has been secured by real estate assets of Raozhou Dianli Ltd, which has been seized by the Court and has an appraised value of RMB 143.1 million, or about USD 21.5 million as of September 19, 2017, according the recent appraisal report, which is much higher than our claim. We are listed as the first-in-line creditor and the management believes that we will receive repayment of RMB 10.5 million plus the outstanding interest. We recorded the entire RMB 10.5 million as Other Receivable. As of September 30, 2020, 2019, and 2018, the outstanding balance was RMB 4.4 million (USD 0.65 million).

In the opinion of the management, after consultation with the Company's legal counsel, the management believes it is probable the balance will be collected as the debtor has real properties worth much more than the debt owed to the Company. There were no other legal matters that are likely to have a material adverse effect on the Company's financial position as of September 30, 2020, 2019, and 2018 and the results of operations or cash flows for the years ended September 30, 2020, 2019, and 2018.

**Cash Transfers Between Our Company and Our Subsidiaries**

During the fiscal years ended September 30, 2021, 2020 and 2019, there has been no transfers, dividends, or distributions between ZK International, its subsidiaries, or to investors, except that during the fiscal year ended September 30, 2021, ZK International transferred a total of \$5,100,079 to Zhejiang Zhengkang Industrial Co., Ltd., one of our subsidiaries.

## **Dividend Policy**

We have never declared or paid any cash dividends on our ordinary shares. We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions and future prospects and other factors the Board of Directors may deem relevant. Subject to the PFIC rules, the gross amount of distributions we make to investors with respect to our ordinary shares (including the amount of any taxes withheld therefrom) will be taxable as a dividend, to the extent that the distribution is paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles.

Under British Virgin Islands law, we may only pay dividends from surplus (the excess, if any, at the time of the determination of the total assets of our company over the sum of our liabilities, as shown in our books of account, plus our capital), and we must be solvent before and after the dividend payment in the sense that we will be able to satisfy our liabilities as they become due in the ordinary course of business; and the realizable value of assets of our company will not be less than the sum of our total liabilities, other than deferred taxes as shown on our books of account, and our capital.

If we determine to pay dividends on any of our ordinary shares in the future, as a holding company, we will be dependent on receipt of funds from our operating subsidiaries. Current PRC regulations permit our PRC subsidiaries to pay dividends to ZK Pipe only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Each of such entity in China is also required to further set aside a portion of its after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at the discretion of its board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation. Our subsidiaries in China are required to set aside statutory reserves and have done so.

In addition, pursuant to the EIT Law and its implementation rules, dividends generated after January 1, 2008 and distributed to us by our PRC subsidiaries are subject to withholding tax at a rate of 10% unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC-resident enterprises are incorporated.

Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations in China may be used to pay dividends to our company.

## **B. Significant Changes**

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## **ITEM 9. THE OFFER AND LISTING**

### **A. Offer and listing details**

Not applicable for annual reports on Form 20-F.

### **B. Plan of distribution**

Not applicable for annual reports on Form 20-F.

### **C. Markets**

Our ordinary shares are listed on the Nasdaq Capital Market under the symbol “ZKIN.”



**D. Selling shareholders**

Not applicable for annual reports on Form 20-F.

**E. Dilution**

Not applicable for annual reports on Form 20-F.

**F. Expenses of the issue**

Not applicable for annual reports on Form 20-F.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share capital**

Not applicable for annual reports on Form 20-F.

**B. Memorandum and articles of association**

ZK International was incorporated on May 13, 2015 under the BVI Companies Act, 2004 as a company limited by shares. We are authorized to issue 50,000,000 ordinary shares with no par value. As of January 28 2022, there were 28,985,740 ordinary shares issued and outstanding.

Our memorandum and articles of association do not permit a director to decide what compensation he or she will receive. All decisions about the compensation of directors will be recommended by the compensation committee, upon its formation, and approved by the board of directors as a whole, both acting only when a quorum of members is present.

The following are summaries of the material provisions of our memorandum and articles of association and the BVI Act, insofar as they relate to the material terms of our ordinary shares.

**Description of Ordinary Shares**

**General**

All of our issued ordinary shares are fully paid and non-assessable. Each holder of ordinary shares is entitled to a certificate specifying the number of ordinary shares held by him, her or it. Our shareholders who are non-residents of the British Virgin Islands may freely hold and vote their ordinary shares.

**Listing**

Our ordinary shares have been listed on the Nasdaq Capital Market since September 1, 2017 under the symbol “ZKIN.”

**Transfer Agent and Registrar**

The transfer agent and registrar for the ordinary shares is Securities Transfer Corporation, 2901 N Dallas Parkway, Suite 380, Plano, Texas 75093.

**Distributions**

The holders of our ordinary shares are entitled to such dividends or other distributions as may be authorised by our board of directors, subject to the BVI Act and our memorandum and articles of association.

**Shareholders’ voting rights**

Any action required or permitted to be taken by the shareholders must be taken at a duly called meeting of the shareholders entitled to vote on such action. At each meeting of shareholders, each shareholder who is present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative) will have one vote for each ordinary share which such shareholder holds. An action that may be taken by the shareholders at a meeting may also be taken by a resolution of shareholders consented to in writing.

### **Election of directors**

The laws of the British Virgin Islands do not specifically prohibit or restrict the creation of cumulative voting rights for the election of our directors. Cumulative voting is not a concept that is accepted as a common practice in the British Virgin Islands, and we have made no provisions in our memorandum and articles of association to allow cumulative voting for elections of directors.

### **Meetings of Shareholders**

Any of our directors may convene a meeting of shareholders at any time and in any manner and place the director considers necessary or desirable. The director convening a meeting must give less than seven days' notice of the meeting to those shareholders whose names appear as shareholders in the register of shareholders on the date of the notice and are entitled to vote at the meeting, and the other directors. Our board of directors must convene a meeting of shareholders upon the written request of shareholders entitled to exercise 30% or more of the voting rights in respect of the matter for which the meeting is requested within 28 days of receiving the written request. A meeting of shareholders held in contravention of the requirement to give notice is valid if shareholders holding at least 90% of the total voting rights on all the matters to be considered at the meeting have waived notice of the meeting and, for this purpose, the presence of a shareholder at the meeting shall constitute waiver in relation to all the shares which that shareholder holds.

The quorum for a meeting of shareholders is duly constituted if, at the beginning of the meeting, there are present in person or by proxy not less than one-third (33.3%) of the votes of the shares (or class or series of shares) entitled to vote on the resolutions to be considered at the meeting. A quorum may comprise a single shareholder or proxy. If within two hours from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of the shareholders, will be dissolved. In any other case, it will stand adjourned to the next business day in the jurisdiction in which the meeting was to have been held at the same time and place or to such other time and place as the directors may determine, and if at the adjourned meeting there are present within one hour from the time appointed for the meeting in person or by proxy not less than one third of the votes of the shares or each class or series of shares entitle to vote on the matter to be considered by the meeting, those present will constitute a quorum but otherwise the meeting will be dissolved.

### **Meetings of directors**

Our business and affairs are managed by our board of directors who make decisions by voting on resolutions of directors. Our directors are free to meet at such times and in such manner and places within or outside the BVI as they determine to be necessary or desirable. A director must be given not less than 3 days' notice of a meeting of directors. At any meeting of directors, a quorum will be present if not less than one half of the total number of directors is present, unless there are only 2 directors in which case the quorum is 2. An action that may be taken by the directors at a meeting may also be taken by a resolution of directors consented to in writing by a majority of the directors.

A person other than an individual which is a shareholder may by a resolution of its directors or other governing body authorise any individual it thinks fit to act as its representative at any meeting of shareholders. The authorized representative shall be entitled to exercise the same powers on behalf of the person which he represents as that person could exercise if it were an individual.

### **Protection of minority shareholders**

We would normally expect British Virgin Islands courts to follow English case law precedents, which would permit a minority shareholder to commence a representative action, or derivative actions in our name, to challenge (1) an act which is ultra vires or illegal, (2) an act which constitutes a fraud against the minority by parties in control of us, (3) an infringement of individual rights of the minority shareholder (such as the right to vote and pre-emptive rights), and (4) an irregularity in the passing of a resolution which requires a special or extraordinary majority of the shareholders.

### **Pre-emptive rights**

There are no pre-emptive rights applicable to the issue by us of new ordinary shares under either British Virgin Islands law or our memorandum and articles of association.

### **Transfer of Ordinary Shares**

Subject to the restrictions in our memorandum and articles of association and applicable securities laws, any of our shareholders may transfer all or any of his or her ordinary shares by written instrument of transfer signed by the transferor and containing the name and address of the transferee. Our board of directors may not resolve to refuse or delay the transfer of any ordinary share unless the shareholder has failed to pay an amount due in respect of it.

### **Liquidation**

If we are wound up and the assets available for distribution among our shareholders are more than sufficient to repay all amounts paid to us on account of the issue of shares immediately prior to the winding up, the excess shall be distributable pari passu among those shareholders in proportion to the amount paid up immediately prior to the winding up on the shares held by them, respectively. If we are wound up and the assets available for distribution among the shareholders as such are insufficient to repay the whole of the amounts paid to us on account of the issue of shares, those assets shall be distributed so that, to the greatest extent possible, the losses shall be borne by the shareholders in proportion to the amounts paid up immediately prior to the winding up on the shares held by them, respectively. If we are wound up, the liquidator appointed by us may, in accordance with the BVI Act, divide among our shareholders in specie or kind the whole or any part of our assets (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders.

### **Calls on ordinary shares and forfeiture of ordinary shares**

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares in a notice served to such shareholders at least 14 days prior to the specified date of payment. Where such a notice has been issued its requirements have not been complied with, the directors may, at any time before the tender of payment, forfeit and cancel the ordinary shares to which the notice relates.

### **Redemption of ordinary shares**

Subject to the provisions of the BVI Act, our board of directors may authorise the issuance of shares at such times, to such persons, for such consideration and on such terms as they may determine by a resolution of directors, subject to the BVI Act, our memorandum and articles of association and any applicable requirements imposed from time to time by the SEC, The Nasdaq Capital Market or any recognized stock exchange on which our securities are listed.

### **Variation of rights**

All or any of the rights attached to any class of shares may subject to the provisions of the BVI Act be varied only with the consent in writing of, or a resolution passed at a meeting by the holders of more than 50% of the issued shares of that class.

### **Changes in the number of shares we are authorized to issue and those in issue**

We may from time to time by resolution of our board of directors:

- amend our memorandum of association to increase or decrease the maximum number of shares we are authorized to issue;
- subject to our memorandum of association, divide our authorized and issued shares into a larger number of shares; and
- subject to our memorandum of association, combine our authorized and issued shares into a smaller number of shares.

### **Inspection of books and records**

Under the BVI Act, holders of our ordinary shares are entitled, upon giving written notice to us, to inspect (i) our memorandum and articles of association, (ii) our register of shareholders, (iii) our register of directors and (iv) minutes of meetings and resolutions of our shareholders, and to make copies and take extracts from these documents and records. However, our directors can refuse access if they are satisfied that to allow such access would be contrary to our interests.

### **Rights of non-resident or foreign shareholders**

There are no limitations imposed by our memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

### **Issuance of additional ordinary shares**

Our memorandum and articles of association authorizes our board of directors to issue additional ordinary shares from authorized but unissued shares, to the extent available, at such times, to such persons, for such consideration and on such terms as they may determine by a resolution of directors.

### **Enforceability of Civil Liabilities**

ZK International was incorporated under the laws of the British Virgin Islands with limited liability. We chose to incorporate ZK International in the British Virgin Islands because of certain benefits associated with being a British Virgin Islands corporation, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of exchange control or currency restrictions and the availability of professional and support services. However, the British Virgin Islands has a less developed body of securities laws as compared to the United States and provides protections for investors to a lesser extent. In addition, British Virgin Islands companies may not have standing to sue before the federal courts of the United States.

Substantially all of our assets are located outside the United States. In addition, a majority of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or such persons or to enforce against them or against us, judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We have appointed Vcorp Agent Services, Inc. as our agent to receive service of process with respect to any action brought against us in the United States District Court for districts in the State of New York under the federal securities laws of the United States or of any State of the United States or any action brought against us in the Supreme Court of the State of New York under the securities laws of the State of New York.

There is uncertainty as to whether the courts of China would (1) recognize or enforce judgments of United States courts obtained against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or (2) be competent to hear original actions brought in each respective jurisdiction, against us or such persons predicated upon the securities laws of the United States or any state thereof.

The recognition and enforcement of foreign judgments are provided for under the Chinese Civil Procedure Law. Chinese courts may recognize and enforce foreign judgments in accordance with the requirements of the Chinese Civil Procedure Law based either on treaties between China and the country where the judgment is made or in reciprocity between jurisdictions. China does not have any treaties or other agreements with the British Virgin Islands or the United States that provide for the reciprocal recognition and enforcement of foreign judgments. As a result, it is uncertain whether a Chinese court would enforce a judgment rendered by a court in either of these two jurisdictions.

The United States and the British Virgin Islands do not have a treaty providing for reciprocal recognition and enforcement of judgments of courts of the United States in civil and commercial matters and that a final judgment for the payment of money rendered by any general or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, may not be enforceable in the British Virgin Islands. A final and conclusive judgment obtained in U.S. federal or state courts under which a sum of money is payable as compensatory damages (i.e., not being a sum claimed by a revenue authority for taxes or other charges of a similar nature by a governmental authority, or in respect of a fine or penalty or multiple or punitive damages) may be the subject of an action on a debt in the court of the British Virgin Islands.

For a detailed description of risks related to enforceability of civil liabilities, please refer to "Item 3.D. Risk Factors – Since the operations of the PRC subsidiaries and substantially all of our assets are located in the PRC, shareholders may find it difficult to enforce a U.S. judgment against the assets of our company, our directors and executive officers" on page 36.

### **C. Material contracts**

We have not entered into any material contracts other than in the ordinary course of business and otherwise described elsewhere in this annual report.

## **D. Exchange controls**

### **PRC Laws and Regulations relating to Foreign Exchange**

#### ***General administration of foreign exchange***

The principal regulation governing foreign currency exchange in the PRC is the Administrative Regulations of the PRC on Foreign Exchange (the “Foreign Exchange Regulations”), which were promulgated on January 29, 1996, became effective on April 1, 1996 and were last amended on August 5, 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade- and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless prior approval by competent authorities for the administration of foreign exchange is obtained. Under the Foreign Exchange Regulations, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE to pay dividends by providing certain evidentiary documents, including board resolutions, tax certificates, or for trade- and services-related foreign exchange transactions, by providing commercial documents evidencing such transactions.

#### ***Circular No. 75, Circular No. 37 and Circular No. 13***

Circular 37 was released by SAFE on July 4, 2014 and abolished Circular 75 which had been in effect since November 1, 2005. Pursuant to Circular 37, a PRC resident should apply to SAFE for foreign exchange registration of overseas investments before it makes any capital contribution to a special purpose vehicle, or SPV, using his or her legitimate domestic or offshore assets or interests. SPVs are offshore enterprises directly established or indirectly controlled by domestic residents for the purpose of investment and financing by utilizing domestic or offshore assets or interests they legally hold. Following any significant change in a registered offshore SPV, such as capital increase, reduction, equity transfer or swap, consolidation or division involving domestic resident individuals, the domestic individuals shall amend the registration with SAFE. Where an SPV intends to repatriate funds raised after completion of offshore financing to the PRC, it shall comply with relevant PRC regulations on foreign investment and foreign debt management. A foreign-invested enterprise established through return investment shall complete relevant foreign exchange registration formalities in accordance with the prevailing foreign exchange administration regulations on foreign direct investment and truthfully disclose information on the actual controller of its shareholders.

If any shareholder who is a PRC resident (as determined by the Circular No. 37) holds any interest in an offshore SPV and fails to fulfil the required foreign exchange registration with the local SAFE branches, the PRC subsidiaries of that offshore SPV may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities. The offshore SPV may also be restricted in its ability to contribute additional capital to its PRC subsidiaries. Where a domestic resident fails to complete relevant foreign exchange registration as required, fails to truthfully disclose information on the actual controller of the enterprise involved in the return investment or otherwise makes false statements, the foreign exchange control authority may order them to take remedial actions, issue a warning, and impose a fine of less than RMB300,000 on an institution or less than RMB50,000 on an individual.

Circular 13 was issued by SAFE on February 13, 2015, and became effective on June 1, 2015. Pursuant to Circular 13, a domestic resident who makes a capital contribution to an SPV using his or her legitimate domestic or offshore assets or interests is no longer required to apply to SAFE for foreign exchange registration of his or her overseas investments. Instead, he or she shall register with a bank in the place where the assets or interests of the domestic enterprise in which he or she has interests are located if the domestic resident individually seeks to make a capital contribution to the SPV using his or her legitimate domestic assets or interests; or he or she shall register with a local bank at his or her permanent residence if the domestic resident individually seeks to make a capital contribution to the SPV using his or her legitimate offshore assets or interests.

As of January 31, 2019, our Beneficial Shareholders have not completed registrations in accordance with Circular 37, they are currently working on their registrations in the local Administration of Exchange Control. The failure of our Beneficial Shareholders to comply with the registration procedures may subject each of our Beneficial Shareholders to fines of less than RMB50,000 (approximately US\$7199). If the registration formalities cannot be processed retrospectively, then the repatriation of the financing funds, profits or any other interests of our shareholders obtained through special purpose vehicles, for use in China, would be prohibited. As a result, any cross-border capital flows between our PRC subsidiary and its offshore parent company, including dividend distributions and capital contributions, would be illegal.

*Circular 19 and Circular 16*

Circular 19 was promulgated by SAFE on March 30, 2015, and became effective on June 1, 2015. According to Circular 19, foreign exchange capital of foreign-invested enterprises shall be granted the benefits of Discretionary Foreign Exchange Settlement (“Discretionary Foreign Exchange Settlement”). With Discretionary Foreign Exchange Settlement, foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau, or for which book-entry registration of monetary contribution has been completed by the bank, can be settled at the bank based on the actual operational needs of the foreign-invested enterprise. The allowed Discretionary Foreign Exchange Settlement percentage of the foreign exchange capital of a foreign-invested enterprise has been temporarily set to be 100%. The Renminbi converted from the foreign exchange capital will be kept in a designated account and if a foreign-invested enterprise needs to make any further payment from such account, it will still need to provide supporting documents and to complete the review process with its bank.

Furthermore, Circular 19 stipulates that foreign-invested enterprises shall make bona fide use of their capital for their own needs within their business scopes. The capital of a foreign-invested enterprise and the Renminbi if obtained from foreign exchange settlement shall not be used for the following purposes:

- directly or indirectly used for expenses beyond its business scope or prohibited by relevant laws or regulations;
- directly or indirectly used for investment in securities unless otherwise provided by relevant laws or regulations;
- directly or indirectly used for entrusted loan in Renminbi (unless within its permitted scope of business), repayment of inter-company loans (including advances by a third party) or repayment of bank loans in Renminbi that have been sub-lent to a third party; and
- directly or indirectly used for expenses related to the purchase of real estate that is not for self-use (except for foreign-invested real estate enterprises).

Circular 16 was issued by SAFE on June 9, 2016. Pursuant to Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. Circular 16 provides an integrated standard for conversion of foreign exchange capital items (including but not limited to foreign currency capital and foreign debts) on a self-discretionary basis applicable to all enterprises registered in the PRC. Circular 16 reiterates the principle that an enterprise’s Renminbi converted from foreign currency-denominated capital may not be directly or indirectly used for purposes beyond its business scope or purposes prohibited by PRC laws or regulations, and such converted Renminbi shall not be provided as loans to non-affiliated entities.

Circulars 16 and 19 address foreign direct investments into the PRC, and stipulate the procedures applicable to foreign exchange settlement. As we do not plan to transfer proceeds raised in future offerings to our WFOE in the PRC, the proceeds raised in future offerings would not be subject to Circular 19 or Circular 16. However, if and when circumstances require funds to be transferred to our WFOE in the PRC from our offshore entities, then any such transfer would be subject to Circulars 16 and 19.

**E. Taxation**

**PRC Taxation**

***Enterprise Income Tax***

On March 16, 2007, the Standing Committee of the National People’s Congress promulgated the Enterprise Income Tax Law of the PRC which was amended on February 24, 2017 and on December 6, 2007, the State Council enacted the Implementation Regulations for the Enterprise Income Tax Law of the PRC, or collectively, the PRC EIT Law. Under the PRC EIT Law, both resident enterprises and non-resident enterprises are subject to tax in the PRC. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but are actually or in effect controlled from within the PRC. Non-resident enterprises are defined as enterprises that are organized under the laws of foreign countries and whose actual management is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the PRC EIT Law and relevant implementing regulations, a uniform enterprise income tax rate of 25% is applied. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, enterprise income tax is set at the rate of 10% with respect to their income sourced from inside the PRC.

Pursuant to the PRC EIT Law, the EIT tax rate of a high and new technology enterprise or HNTE, is 15%. According to the Administrative Measures for the Recognition of HNTEs, effective on January 1, 2008 and amended on January 29, 2016, for each entity accredited as HNTE, its HNTE status is valid for three years if it meets the qualifications for HNTE on a continuing basis during such period.

#### ***Value-added Tax***

The Provisional Regulations of on Value-added Tax of the PRC were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended on November 10, 2008 and came into effect on January 1, 2009, and were further amended on February 6, 2016 and November 19, 2017. The Detailed Rules for the Implementation of Provisional Regulations of on Value-added Tax of the PRC were promulgated by the Ministry of Finance on December 25, 1993 and subsequently amended on December 15, 2008 and October 28, 2011, or collectively, VAT Law. On November 19, 2017, the State Council promulgated The Order on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of on Value-added Tax of the PRC, or Order 691. According to the VAT Law and Order 691, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are the taxpayers of VAT. The VAT rates generally applicable are simplified as 17%, 11%, 6% and 0%, and the VAT rate applicable to the small-scale taxpayers is 3%.

The Company is subject to a VAT rate of 17% before May 1, 2018, a VAT rate of 16% effective on May 1, 2018, and the most current VAT rate of 13% effective on April 1, 2019. The VAT payable may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing or acquiring its finished products.

#### ***Dividend Withholding Tax***

The PRC EIT Law provides that since January 1, 2008, an enterprise income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes, or the Double Tax Avoidance Arrangement and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties, or the SAT Circular 81, issued on February 20, 2009 by the State Administration of Taxation, or the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. According to the Circular on Several Issues regarding the “Beneficial Owner” in Tax Treaties, which was issued on February 3, 2018 by the SAT, effective as of April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of its income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements.

### ***Tax on Indirect Transfer***

On February 3, 2015, the SAT issued the Circular on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or SAT Circular 7. Pursuant to SAT Circular 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises, may be recharacterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, features to be taken into consideration include, inter alia, whether the main value of the equity interest of the relevant offshore enterprise derives directly or indirectly from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China or if its income is mainly derived from China; and whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure. According to SAT Circular 7, where the payor fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. SAT Circular 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired on a public stock exchange. On October 17, 2017, the SAT issued the Circular on Issues of Tax Withholding regarding Non-PRC Resident Enterprise Income Tax, or SAT Circular 37, which further elaborates the relevant implemental rules regarding the calculation, reporting and payment obligations of the withholding tax by the non-resident enterprises. Nonetheless, there remain uncertainties as to the interpretation and application of SAT Circular 7. SAT Circular 7 may be determined by the tax authorities to be applicable to our offshore transactions or sale of our shares or those of our offshore subsidiaries where non-resident enterprises, being the transferors, were involved.

### **British Virgin Islands Taxation**

Under the BVI Act as currently in effect, a holder of Ordinary Shares who is not a resident of the British Virgin Islands is exempt from British Virgin Islands income tax on dividends paid with respect to the Ordinary Shares and a holder of Ordinary Shares is not required to pay any income tax in the British Virgin Islands on gains realized during that year on sale or disposal of such shares. The laws of the British Virgin Islands do not impose a withholding tax on dividends paid by a company incorporated or re-registered under the BVI Act.

There are no capital gains, gift or inheritance taxes levied by the British Virgin Islands government on companies incorporated or re-registered under the BVI Act. In addition, shares of companies incorporated or re-registered under the BVI Act are not subject to transfer taxes, stamp duties or similar charges.

There is no income tax treaty or convention currently in effect between the United States and the British Virgin Islands or between China and the British Virgin Islands.

### **United States Federal Income Taxation**

The following does not address the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to mark-to-market;
- U.S. expatriates;
- tax-exempt entities;



- persons liable for alternative minimum tax;
- persons holding our Ordinary Shares as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of our voting shares;
- persons who acquired our Ordinary Shares pursuant to the exercise of any employee share option or otherwise as consideration; or
- persons holding our Ordinary Shares through partnerships or other pass-through entities.

Prospective purchasers are urged to consult their own tax advisors about the application of the U.S. Federal tax rules to their particular circumstances as well as the state, local, foreign and other tax consequences to them of the purchase, ownership and disposition of our Ordinary Shares.

#### **Tax Treaties**

As above mentioned, according to the Sino-U.S. Tax Treaty which was effective on January 1st, 1987 and aimed to avoid double taxation disadvantage, income that is incurred in one nation should be taxed by that nation and exempted from the other nation, but for the dividend that is generated in China and distributed to foreigners in other nations, a rate 10% tax will be charged.

#### **Taxation of Dividends and Other Distributions on our Ordinary Shares**

Subject to the passive foreign investment company rules discussed below, the gross amount of distributions made by us to you with respect to the Ordinary Shares (including the amount of any taxes withheld therefrom) will generally be includable in your gross income as dividend income on the date of receipt by you, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders, including individual U.S. Holders, dividends will be taxed at the lower capital gains rate applicable to qualified dividend income, provided that (1) the Ordinary Shares are readily tradable on an established securities market in the United States, or we are eligible for the benefits of an approved qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend is paid or the preceding taxable year, and (3) certain holding period requirements are met. Under U.S. Internal Revenue Service authority, Ordinary Shares are considered for purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on The Nasdaq Capital Market. You are urged to consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our Ordinary Shares, including the effects of any change in law after January 31, 2019.

Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to our Ordinary Shares will constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), it will be treated first as a tax-free return of your tax basis in your Ordinary Shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

## Taxation of Dispositions of Ordinary Shares

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of a share equal to the difference between the amount realized (in U.S. dollars) for the share and your tax basis (in U.S. dollars) in the Ordinary Shares. The gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the Ordinary Shares for more than one year, you will be eligible for reduced tax rates of 0% (for individuals in the 10% or 15% tax brackets), 20% (for individuals in the 39.6% tax brackets) or 15% for all other individuals. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as United States source income or loss for foreign tax credit limitation purposes.

### Passive Foreign Investment Company

Based on our current and anticipated operations and the composition of our assets, we do not expect to be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our current taxable year ending September 30, 2021. Our actual PFIC status for the current taxable year ending September 30, 2021 will not be determinable until the close of such taxable year and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year. Because PFIC status is a factual determination for each taxable year which cannot be made until the close of the taxable year. A non-U.S. corporation is considered a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income, defined as income from interest, dividends, rents, royalties, gains on property producing foreign personal holding company income and certain other income that does not involve the active conduct of a trade or business; or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the “asset test”).

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change. In particular, because the value of our assets for purposes of the asset test will generally be determined based on the market price of our Ordinary Shares, our PFIC status will depend in large part on the market price of our Ordinary Shares. Accordingly, fluctuations in the market price of the Ordinary Shares may cause us to become a PFIC. In addition, the application of the PFIC rules is subject to uncertainty in several respects and the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raised in from our initial public offering. If we are a PFIC for any year during which you hold Ordinary Shares, we will continue to be treated as a PFIC for all succeeding years during which you hold Ordinary Shares. However, if we cease to be a PFIC, you may avoid some of the adverse effects of the PFIC regime by making a “deemed sale” election with respect to the Ordinary Shares.

If we are a PFIC for any taxable year during which you hold Ordinary Shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the Ordinary Shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the Ordinary Shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the Ordinary Shares;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the Ordinary Shares cannot be treated as capital, even if you hold the Ordinary Shares as capital assets.

A U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment discussed above. If you make a mark-to-market election for the Ordinary Shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the Ordinary Shares as of the close of your taxable year over your adjusted basis in such Ordinary Shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the Ordinary Shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the Ordinary Shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the Ordinary Shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the Ordinary Shares, as well as to any loss realized on the actual sale or disposition of the Ordinary Shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such Ordinary Shares. Your basis in the Ordinary Shares will be adjusted to reflect any such income or loss amounts. If you make a valid mark-to-market election, the tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us, except that the lower applicable capital gains rate for qualified dividend income discussed above under “Taxation of Dividends and Other Distributions on our Ordinary Shares” generally would not apply.

The mark-to-market election is available only for “marketable stock”, which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market (as defined in applicable U.S. Treasury regulations), including The Nasdaq Capital Market. If the Ordinary Shares are regularly traded on The Nasdaq Capital Market and if you are a holder of Ordinary Shares, the mark-to-market election would be available to you were we to be or become a PFIC.

Alternatively, a U.S. Holder of stock in a PFIC may make a “qualified electing fund” election with respect to such PFIC to elect out of the tax treatment discussed above. A U.S. Holder who makes a valid qualified electing fund election with respect to a PFIC will generally include in gross income for a taxable year such holder’s pro rata share of the corporation’s earnings and profits for the taxable year. However, the qualified electing fund election is available only if such PFIC provides such U.S. Holder with certain information regarding its earnings and profits as required under applicable U.S. Treasury regulations. We do not currently intend to prepare or provide the information that would enable you to make a qualified electing fund election. If you hold Ordinary Shares in any year in which we are a PFIC, you will be required to file U.S. Internal Revenue Service Form 8621 regarding distributions received on the Ordinary Shares and any gain realized on the disposition of the Ordinary Shares.

You are urged to consult your tax advisors regarding the application of the PFIC rules to your investment in our Ordinary Shares and the elections discussed above.

#### **Information Reporting and Backup Withholding**

Dividend payments with respect to our Ordinary Shares and proceeds from the sale, exchange or redemption of our Ordinary Shares may be subject to information reporting to the U.S. Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification on U.S. Internal Revenue Service Form W-9 or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on U.S. Internal Revenue Service Form W-9. U.S. Holders are urged to consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the U.S. Internal Revenue Service and furnishing any required information.

Under the Hiring Incentives to Restore Employment Act of 2010, certain United States Holders are required to report information relating to Ordinary Shares, subject to certain exceptions (including an exception for Ordinary Shares held in accounts maintained by certain financial institutions), by attaching a complete Internal Revenue Service Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold Ordinary Shares. U.S. Holders are urged to consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

#### **F. Dividends and paying agents**

Not applicable for annual reports on Form 20-F.

#### **G. Statement by experts**

Not applicable for annual reports on Form 20-F.

#### **H. Documents on display**

We are subject to the information requirements of the Exchange Act. In accordance with these requirements, the Company files reports and other information with the SEC. You may read and copy any materials filed with the SEC at the Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at <http://www.sec.gov> that contains reports and other information regarding registrants that file electronically with the SEC.

#### **I. Subsidiary Information**

Not applicable.

### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to a variety of financial risks, including market risk (including currency risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. Our overall risk management program focuses on preservation of capital and the unpredictability of financial markets and has sought to minimize potential adverse effects on our financial performance and position.

#### **Foreign Exchange Risk**

While our reporting currency is the U.S. Dollar, our consolidated sales and consolidated costs and expenses occurred within the PRC are denominated in the RMB. As a result, we are exposed to foreign exchange risk as our sales and results of operations may be affected by fluctuations in the exchange rate between the U.S. Dollar and the RMB. If the RMB depreciates against the U.S. Dollar, the value of our RMB sales, earnings and assets as expressed in our U.S. Dollar financial statements will decline. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders' equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in determining other comprehensive income, a component of stockholders' equity. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. Since July 2005, the RMB has not been pegged to the U.S. dollar and, although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar or the Euro in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in RMB exchange rate and lessen intervention in the foreign exchange market. Although the RMB strengthened against the U.S. dollar over the last five years, the RMB's significant weakening against the U.S. dollar since July 2015 has largely undone such prior increases.

#### **Interest Rate Risk**

Our interest rate risk arises from short and long-term borrowings. As of September 30, 2021 and 2020, we had borrowings with fixed interest rates and therefore we were exposed to fair value interest rate risk.

As of September 30, 2021 and 2020 we had no long-term interest-bearing assets or long-term interest bearing liabilities.

#### **Credit Risk**

Our cash is invested primarily in savings and deposit accounts with original maturities of three months or less. Savings and deposit accounts generate a small amount of interest income.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, and accounts receivable. As of September 30, 2021 and 2020, \$6,821,848 and \$3,695,459, respectively, of the Company's cash was on deposit at financial institutions in the PRC. While management believes that these financial institutions are of high credit quality, it also continually monitors their creditworthiness.

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

**Inflation**

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material effect on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross profit and selling, general and administrative expenses as a percentage of net sales if the selling prices of our products do not increase with these increased costs.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

With the exception of Items 12.D.3 and 12.D.4, this Item 12 is not applicable for annual reports on Form 20-F. As to Items 12.D.3 and 12.D.4, this Item 12 is not applicable, as the Company does not have any American Depositary Shares.

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

We do not have any material defaults in the payment of principal, interest, or any installments under a sinking or purchase fund.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITIES HOLDERS AND USE OF PROCEEDS**

**Material Modifications to the Rights of Security Holders**

See “Item 10. Additional Information—B. Memorandum and Articles of Association—Description of Ordinary Shares” for a description of the rights of securities holders.

**Use of Proceeds**

Not applicable for annual reports on Form 20-F.

**ITEM 15. CONTROLS AND PROCEDURES**

(a) Evaluation of Disclosure Controls and Procedures.

As of September 30, 2021, the end of the fiscal year covered by this report, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2021, our disclosure controls and procedures were ineffective. Such conclusion is due to the presence of material weakness in internal control over financial reporting as described below.

(b) Management’s annual report on internal control over financial reporting.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. We assessed the effectiveness of the Company’s internal control over financial reporting as of September 30, 2021. In making its assessment, management used the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “2013 COSO Framework”). The 2013 COSO Framework outlines the 17 underlying principles and the following fundamental components of a company’s internal control: (i) control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring. Our management has implemented and tested our internal control over financial reporting based on these criteria and identified certain material weaknesses set forth below. Based on the assessment, management determined that, as of September 30, 2020, we did not maintain effective internal control over financial reporting due to the existence of the following material weaknesses:

- The Company does not have sufficient accounting and finance personnel with U.S.-GAAP experience

As a result, the Company plans to develop remedial actions to strengthen its accounting and financial reporting functions. To strengthen the Company’s internal control over financial reporting, the Company plans to put design, implement, and test internal control over financial reporting. In addition to the foregoing efforts, the Company expects to implement the following remedial actions:

- Hire addition personnel with experience in US GAAP financial reporting and control procedures; and

Despite the material weaknesses and deficiencies reported above, our management believes that our consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented and that this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

(c) Attestation report of the registered public accounting firm.

Not applicable.

(d) Changes in internal control over financial reporting.

There have been no changes in our internal controls over financial reporting occurred during the twelve months ended September 30, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 15T. CONTROLS AND PROCEDURES**

Not applicable.

**ITEM 16. [RESERVED]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Company's board of directors has determined that Xuejie Lyu qualifies as an "audit committee financial expert" in accordance with applicable Nasdaq Capital Market standards. The Company's board of directors has also determined that members of the Audit Committee are all "independent" in accordance with the applicable Nasdaq Capital Market standards.

**ITEM 16B. CODE OF ETHICS**

The Company has adopted a Code of Business Conduct and Ethics that applies to the Company's directors, officers, employees and advisors. The Code of Ethics is attached as an exhibit to this annual report. We have also posted a copy of our code of business conduct and ethics on our website at [www.zkinternationalgroup.com](http://www.zkinternationalgroup.com). The following is a summation of the key points of the Code of Ethics we adopted:

- Honest and ethical conduct, including ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely, and understandable disclosure reports and documents that a small business issuer files with, or submits to, the Commission and in other public communications made by our Company;
- Full compliance with applicable government laws, rules and regulations;
- The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and
- Accountability for adherence to the code.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

ZH CPA, LLC was appointed by the Company to serve as its independent registered public accounting firm for fiscal years ended September 30, 2021, 2020 and 2019. Audit services provided by ZH CPA, LLC for fiscal years ended September 30, 2021, 2020 and 2019 included the examination of the consolidated financial statements of the Company, and services related to periodic filings made with the SEC.

**Fees Paid To Independent Registered Public Accounting Firm**

*Audit Fees*

ZH CPA, LLC's fees for the annual audit of our financial statements for the fiscal years ended September 30, 2021, 2020, and 2019 was \$180,000, \$170,000, and \$170,000, respectively, excluding travel and other out-of-pocket expenses.

*Audit-Related Fees*

ZH CPA, LLC did not provide audit related service during the fiscal years ended September 30, 2021, 2020, and 2019.

***Tax Fees***

ZH CPA, LLC did not provide tax services for the fiscal years ended September 30, 2021, 2020, and 2019.

***All Other Fees***

The Company has not paid ZH CPA, LLC for any other services in fiscal years ended September 30, 2020, and 2019.

***Audit Committee Pre-Approval Policies***

Before ZH CPA, LLC was engaged by the Company to render audit services, the engagement was approved by the Company's audit committee. All services rendered by ZH CPA, LLC have been so approved.

***Percentage of Hours***

The percentage of hours expended on the principal accountants' engagement to audit our consolidated financial statements for 2021 that were attributed to work performed by persons other than ZH CPA, LLC's full-time permanent employees was nil.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Neither the Company nor any affiliated purchaser has purchased any shares or other units of any class of the Company's equity securities registered by the Company pursuant to Section 12 of the Securities Exchange Act during the fiscal year ended September 30, 2021.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

There has been no change in Registrant's certifying accountant during the fiscal year ended September 30, 2021.

**ITEM 16G. CORPORATE GOVERNANCE**

As a British Virgin Islands company listed on the Nasdaq Capital Market, we are subject to Nasdaq corporate governance listing standards. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. During the fiscal year ended September 30, 2021, we have elected to follow home country practice in British Virgin Islands in lieu of Nasdaq Listing Rule 5600 with the exception of those rules which are required to be followed pursuant to the provisions of Listing Rule 5615(a)(3). Certain corporate governance practices in the British Virgin Islands, which is our home country, may differ significantly from Nasdaq corporate governance listing standards. Shareholders of British Virgin Islands exempted companies like us have no general rights under British Virgin Islands law to inspect corporate records or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

We otherwise intend to comply with the rules generally applicable to U.S. domestic companies listed on the Nasdaq Capital Market. We may in the future decide to use the foreign private issuer exemption with respect to some or all of the other Nasdaq Capital Market corporate governance rules. See "Item 3. Key Information – D. Risk Factors - Risks Related to Our Ordinary Shares - As a foreign private issuer, we are permitted to, and did, follow certain home country corporate governance practices instead of otherwise applicable Nasdaq Capital Market requirements, which may result in less protection than is accorded to investors under rules applicable to domestic U.S. issuers."



Nasdaq Listing Rule 5635(c)

On February 15, 2021, the Company entered into a consultancy agreement with Dentoro Alliance LP, a company incorporated in the Republic of Ireland (the “Consultant”), pursuant to which the Consultant agreed to provide marketing services for the business development of xSigma Corporation including website development, protocol development and implementation, social media and community management, content creation and public relations management. In exchange for the Consultant’s services, the Company agreed to pay the Consultant initial compensation and performance earn-out. The initial compensation includes 250,000 ordinary shares of the Company, valued at \$2.00 per share with a total consideration of \$500,000, which were issued upon execution of such consultancy agreement, and warrants to purchase a total of 2,500,000 ordinary shares, which include (i) warrants to purchase 400,000 ordinary shares, exercisable at \$1.00 per share only when Company’s closing bid price is at least \$2.00 for ten consecutive trading days, (ii) warrants to purchase 1,000,000 ordinary shares, exercisable at \$1.50 per share only when Company’s closing bid price is above \$2.50 for seven consecutive trading days, (iii) warrants to purchase 500,000 ordinary shares, exercisable at \$2.00 per share only when Company’s closing bid price is at least \$3.50 for seven consecutive trading days, (iv) Warrants to purchase 600,000 ordinary shares, exercisable at \$2.50 per share, only when Company’s closing bid price is at least \$4.25 for seven consecutive trading days. All the warrants will expire nine months after issuance and may be permitted for cash or cashless exercise at Company’s option pursuant to a definitive warrant agreement. The performance earn-out includes 1,000,000 ordinary shares of the Company if xSigma Corporation generates \$2,500,000 or more in audited operating net income in any fiscal year of xSigma Corporation (the “Milestone Event”). This performance earn-out precludes the Consultant from earning any additional share based on the Milestone Event.

The warrants and ordinary shares, when issued pursuant to such consultancy agreement, will be issued in reliance upon the exemption from securities registration afforded by the provisions of Regulation S as promulgated by the SEC under the Securities Act. The Company made the determination based upon the factors that the Consultant is not a “U.S. Person” as that term is defined in Rule 902(k) of Regulation S under the Securities Act, that the Consultant was acquiring our securities for investment purposes for its own respective account and not as nominees or agents, and not with a view to the resale or distribution thereof, and that the Consultant understood that the shares of our securities may not be sold or otherwise disposed of without registration under the Securities Act or an applicable exemption therefrom.

Nasdaq Listing Rule 5635(c) requires, subject to certain exceptions, that shareholder approval is required for the issuance of securities when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants. The Company elected to follow home country practice in British Virgin Islands in lieu of Nasdaq Listing Rule 5635(c).

Nasdaq Listing Rule 5635(d)

On February 24, 2021, the Company closed a registered direct offering (the “February 2021 Offering”) of an aggregate investment of \$4,599,983.50 pursuant to certain securities purchase agreement with several accredited investors dated February 22, 2021 for the issuance by the Company of (i) 1,295,770 ordinary shares of the Company; (ii) first registered investor warrants, with a term of five (5) years exercisable immediately upon issuance, to purchase an aggregate of up to 1,295,770 ordinary shares at an exercise price of \$4.00 per share, subject to customary adjustments thereunder; and (iii) second registered investor warrants, with a term of five (5) years exercisable immediately upon issuance, to purchase an aggregate of up to 1,295,770 ordinary shares at an exercise price of \$4.50 per share, subject to customary adjustments thereunder. Holders of the warrants may exercise them by paying the applicable cash exercise price or, if there is not an effective registration statement for the sale of the ordinary shares underlying such warrants at the time of exercise, by exercising on a cashless basis pursuant to the formula provided in the warrants. The February 2021 Offering was pursuant to the Securities Act of 1933, pursuant to a prospectus supplement filed on February 23, 2021 to the Company’s currently effective registration statement on Form F-3 (File No. 333-230860), which was initially filed with the SEC on April 15, 2019 and was declared effective on April 29, 2019 (the “Shelf Registration Statement”).

On March 25, 2021, the Company closed a registered direct offering (the “March 2021 Offering”) of 4,000,000 ordinary shares of the Company for an aggregate gross proceeds of \$18,000,000 pursuant to certain securities purchase agreement with several accredited investors dated March 22, 2021. The March 2021 Offering was pursuant to the Securities Act, pursuant to a prospectus supplement filed on March 23, 2021 to the Company’s Shelf Registration Statement.

Nasdaq Listing Rule 5635(d) requires shareholder approval of transactions that may result in the issuance or sale of 20% or more of a listed company’s outstanding common stock or voting power. The February 2021 Offering and March 2021 Offering were deemed aggregated by Nasdaq and the total issuance exceeds 20% of the then issued and outstanding ordinary shares. The Company elected to follow home country practice in British Virgin Islands in lieu of Nasdaq Listing Rule 5635(d).

**ITEM 16H. MINE SAFETY  
DISCLOSURE**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL  
STATEMENTS**

See Item 18.

**ITEM 18. FINANCIAL  
STATEMENTS**

Our consolidated financial statements are included at the end of this annual report, beginning with page F-1.

**ITEM 19. EXHIBITS**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
1.1	<a href="#">Amended and Restated Memorandum and Articles of Association of ZK International Group Co., Ltd (Exhibit 1.1 to the Form 6-K furnished on June 28, 2022 and is incorporated herein by reference)</a>
2.1	<a href="#">Form of Debenture (Exhibit 10.2 to the Form 6-K furnished on October 20, 2020 and is incorporated herein by reference)</a>
2.2	<a href="#">Form of Warrant (Exhibit 4.1 to the Form 6-K furnished on February 23, 2021 and is incorporated herein by reference)</a>
2.3	<a href="#">Form of Warrant (Exhibit 4.2 to the Form 6-K furnished on February 23, 2021 and is incorporated herein by reference)</a>
2.4	<a href="#">2021 Equity Incentive Plan (Exhibit 10.1 to the Form 6-K furnished on March 31, 2021 and is incorporated herein by reference)</a>
2.5	<a href="#">Form of Debenture (Exhibit 4.1 to the Form 6-K furnished on August 27, 2021 and is incorporated herein by reference)</a>
3.1	<a href="#">Controlling shareholders' agreement to vote in concert dated May 13, 2015 (Exhibit 10.2 to the Form F-1 initially filed on May 24, 2017 and is incorporated herein by reference)</a>
4.1	<a href="#">Form of Securities Purchase Agreement between the Company and the investors (Exhibit 10.1 to the Form 6-K furnished on October 20, 2020 and is incorporated herein by reference)</a>
4.2	<a href="#">Form of Securities Purchase Agreement between the Company and the investors (Exhibit 10.1 to the Form 6-K furnished on January 8, 2021 and is incorporated herein by reference)</a>
4.3	<a href="#">Consultancy Agreement between ZK International Group Co., Ltd. and Dentoro Alliance LP, dated February 15, 2021 (Exhibit 10.1 to the Form 6-K furnished on February 23, 2021 and is incorporated herein by reference)</a>
4.4	<a href="#">Securities Purchase Agreement, dated as of February 22, 2021 by and among the Company and certain investors (Exhibit 10.1 to the Form 6-K furnished on February 23, 2021 and is incorporated herein by reference)</a>
4.5	<a href="#">Consulting Agreement between the Company and Susan Kilkenny dated April 5, 2021 (Exhibit 10.1 to the Form 6-K furnished on April 5, 2021 and is incorporated herein by reference)</a>
4.6	<a href="#">Subscription of Shares Agreement among the Company, CG Malta and xSigma dated April 4, 2021 (Exhibit 10.1 to the Form 6-K furnished on April 8, 2021 and is incorporated herein by reference)</a>
4.7	<a href="#">Shareholders Agreement among shareholders of CG Malta dated April 4, 2021 (Exhibit 10.2 to the Form 6-K furnished on April 8, 2021 and is incorporated herein by reference)</a>
4.8	<a href="#">Subscription of Shares Agreement between CG Malta and xSigma dated April 4, 2021 (incorporated by reference to exhibit 10.1 to the report of foreign private issuer on Form 6-K of the Company filed on August 13, 2021)</a>
4.9	<a href="#">Amendment to the Subscription of Shares Agreement between CG Malta and xSigma dated August 4, 2021 (incorporated by reference to exhibit 10.2 to the report of foreign private issuer on Form 6-K of the Company filed on August 13, 2021)</a>

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4.10	<a href="#">Securities Purchase Agreement, dated as of August 25, 2021 by and among the Company and certain investors (Exhibit 10.1 to the Form 6-K furnished on August 27, 2021 and is incorporated herein by reference)</a>
4.11	<a href="#">Amendment to the Subscription of Shares Agreement Between CG Malta Holding Limited and XSigma Entertainment Ltd. dated December 27, 2021 (Exhibit 10.1 to the Form 6-K furnished on December 30, 2021 and is incorporated herein by reference)</a>
8.1**	<a href="#">List of Subsidiaries of the Registrant</a>
11.1	<a href="#">Code of Business Conduct and Ethics (Exhibit 14.1 to the Form F-1 initially filed on May 24, 2017 and is incorporated herein by reference)</a>
12.1*	<a href="#">Certification of Chief Executive Officer Required by Rule 13a-14(a)</a>
12.2*	<a href="#">Certification of Chief Financial Officer Required by Rule 13a-14(a)</a>
13.1*	<a href="#">Certification of Chief Executive Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code</a>
13.2*	<a href="#">Certification of Chief Financial Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code</a>
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 Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File - The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

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\* Filed  
herewith

\*\* Filed  
previously

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**ZK INTERNATIONAL GROUP CO., LTD.**

By: /s/ Jiancong Huang

Name: Jiancong Huang

Title: Chief Executive Officer

Date: June 30, 2022

**ZK INTERNATIONAL GROUP CO., LTD.**

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CERTIFIED PUBLIC ACCOUNTANTS

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Board of Directors and Stockholders  
ZK International Group Co., Ltd.**

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of ZK International Group Co., Ltd. and its subsidiaries (collectively the “Company”) as of September 30, 2021 and 2020, and the related statements of income (loss), comprehensive income (loss), changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended September 30, 2021, and the related notes and schedules (collectively referred to as the financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2021, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ZH CPA, LLC

We have served as the Company’s auditor since 2017.  
Denver, Colorado  
January 28, 2022

1600 Broadway, Suite 1600, Denver, CO, 80202, USA. Phone: 1.303.386.7224 Fax: 1.303.386.7101 Email: admin@zhcpa.us

**ZK INTERNATIONAL GROUP CO., LTD**  
**CONSOLIDATED BALANCE SHEETS**  
**(IN U.S. DOLLARS)**

	As of September 30,	
	2021	2020
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 13,525,298	\$ 3,759,535
Restricted cash	77,906	—
Short-term Investment	2,560,760	294,568
Accounts receivable, net of allowance for doubtful accounts of \$ 2,221,870 and \$2,020,373, respectively	27,124,959	31,393,289
Notes receivable	—	192,819
Other receivables	2,158,120	3,337,634
Due from related parties	—	47,135
Inventories	20,689,252	21,679,258
Advance to suppliers	12,567,368	4,078,256
Total current assets	<u>78,703,663</u>	<u>64,782,494</u>
Property, plant and equipment, net	8,004,855	7,870,680
Right-of use asset	54,166	—
Intangible assets, net	8,749,987	929,021
Deferred tax assets	353,460	724,612
Long-term deposit	12,472,847	11,836,860
Long-term investment	25,323,323	306,837
<b>TOTAL ASSETS</b>	<b><u>\$ 133,662,301</u></b>	<b><u>\$ 86,450,504</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,159,731	\$ 10,351,880
Accrued expenses and other current liabilities	6,875,769	4,172,781
Lease liability - current portion	26,332	—
Accrued payroll and welfare	1,853,019	1,555,705
Advance from customers	5,666,214	2,345,891
Due to related parties	1,072,335	1,315,803
Convertible debentures	2,823,364	—
Short-term bank borrowings	21,394,761	17,372,894
Other borrowing - short term portion	283,758	420,741
Notes payables	—	153,175
Income tax payable	2,354,832	3,188,615
Total current liabilities	<u>44,510,115</u>	<u>40,877,485</u>
Lease liability - long term portion	27,834	—
Other borrowing - long term portion	—	269,290
<b>TOTAL LIABILITIES</b>	<b><u>\$ 44,537,949</u></b>	<b><u>\$ 41,146,775</u></b>
Equity		
Common stock, no par value, 50,000,000 shares authorized, 28,918,177 and 16,558,037 shares issued and outstanding, respectively		
Additional paid-in capital	63,374,085	18,049,630
Statutory surplus reserve	2,914,602	2,904,699
Subscription receivable	(125,000)	—
Retained earnings	19,737,504	23,546,921
Accumulated other comprehensive income (loss)	2,898,594	492,685
Total equity attributable to ZK International Group Co., Ltd.	<u>88,799,785</u>	<u>44,993,935</u>
Equity attributable to non-controlling interests	324,567	309,794
Total equity	89,124,352	45,303,729
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>\$ 133,662,301</u></b>	<b><u>\$ 86,450,504</u></b>

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



**ZK INTERNATIONAL GROUP CO., LTD**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
**(IN U.S. DOLLARS, EXCEPT SHARE DATA)**

	For the year ended September 30,		
	2021	2020	2019
Revenues	\$ 99,407,217	\$ 86,846,791	\$ 63,883,520
Cost of sales	(92,936,029)	(82,903,989)	(48,239,478)
<b>Gross profit</b>	<b>6,471,188</b>	<b>3,942,802</b>	<b>15,644,042</b>
Operating expenses:			
Selling and marketing expenses	3,117,906	2,215,651	2,647,429
General and administrative expenses	5,772,710	2,482,972	2,897,995
Research and development costs	1,234,161	1,123,555	1,452,061
<b>Total operating expenses</b>	<b>10,124,777</b>	<b>5,822,178</b>	<b>6,997,485</b>
<b>Operating Income (loss)</b>	<b>(3,653,589)</b>	<b>(1,879,376)</b>	<b>8,646,557</b>
Other income (expenses):			
Interest expenses	(1,196,648)	(1,000,554)	(1,151,045)
Interest income	13,733	7,192	24,437
Gain on disposal of subsidiary, net	—	536,612	—
Income (loss) on investment	50,649	(256,937)	—
Other income, net	431,438	327,845	921,973
<b>Total other expenses, net</b>	<b>(700,828)</b>	<b>(385,842)</b>	<b>(204,635)</b>
<b>Income (loss) before income taxes</b>	<b>(4,354,417)</b>	<b>(2,265,218)</b>	<b>8,441,922</b>
Income tax recovery (expense)	552,146	1,428,202	(248,228)
<b>Net (loss) income</b>	<b>\$ (3,802,271)</b>	<b>\$ (837,016)</b>	<b>\$ 8,193,694</b>
Net (loss) income attributable to non-controlling interests	2,757	11,402	(86,828)
Net (loss) income attributable to ZK International Group Co., Ltd.	(3,799,514)	(825,614)	\$ 8,106,866
<b>Net (loss) income</b>	<b>(3,802,271)</b>	<b>\$ (837,016)</b>	<b>\$ 8,193,694</b>
Other comprehensive income (loss):			
Foreign currency translation adjustment	2,423,439	2,319,048	(1,694,278)
<b>Total comprehensive income</b>	<b>\$ (1,378,832)</b>	<b>\$ 1,482,032</b>	<b>\$ 6,499,416</b>
Comprehensive loss (income) attributable to non-controlling interests	(14,773)	(6,136)	(73,919)
<b>Comprehensive income attributable to ZK International Group Co., Ltd.</b>	<b>\$ (1,393,605)</b>	<b>\$ 1,475,896</b>	<b>\$ 6,425,497</b>
Basic and diluted earnings (loss) per share			
Basic	\$ (0.17)	\$ (0.05)	\$ 0.49
Diluted	(0.17)	(0.05)	0.49
Weighted average number of shares outstanding			
Basic	21,873,594	16,558,037	16,551,708
Diluted	22,633,819	16,558,037	16,551,708

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

**ZK INTERNATIONAL GROUP CO., LTD**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2021, 2020 AND 2019**  
**(IN U.S. DOLLARS, EXCEPT SHARE DATA)**

	Shares	Additional paid-in capital	Subscription Receivable	Statutory surplus reserve	Retained earnings	Accumulated other comprehensive income (loss)	Non- controlling interests	Total equity
<b>Balance at September 30, 2018</b>	<b>16,528,037</b>	<b>17,998,933</b>	<b>—</b>	<b>2,031,775</b>	<b>17,138,593</b>	<b>(127,456)</b>	<b>225,747</b>	<b>37,267,592</b>
Shares issued for cast, net of offering costs	30,000	50,697						50,697
Foreign currency translation loss						(1,681,369)	(12,909)	(1,694,278)
Net income				872,924	7,233,942		86,828	8,193,694
<b>Balance at September 30, 2019</b>	<b>16,558,037</b>	<b>18,049,630</b>	<b>—</b>	<b>2,904,699</b>	<b>24,372,535</b>	<b>(1,808,825)</b>	<b>299,666</b>	<b>43,817,705</b>
Disposal of subsidiary							3,992	3,992
Foreign currency translation loss						2,301,510	17,538	2,319,048
Net income					(825,614)		(11,402)	(837,016)
<b>Balance at September 30, 2020</b>	<b>16,558,037</b>	<b>18,049,630</b>	<b>—</b>	<b>2,904,699</b>	<b>23,546,921</b>	<b>492,685</b>	<b>309,794</b>	<b>45,303,729</b>
Issuance of common stock, net of offering costs	7,080,762	24,884,560	(125,000)					24,759,560
Common stock issued in connection with conversion of convertible notes	4,374,176	11,443,067						11,443,067
Issuance of common stock related to exercise of warrants	355,202	1,345,056						1,345,056
Stock-based compensation	550,000	9,542,783						9,542,783
Unearned Compensation		(1,891,011)						(1,891,011)
Foreign currency translations						2,405,909	17,530	2,423,439
Net income				9,903	(3,809,417)		(2,757)	(3,802,271)
<b>Balance at September 30, 2021</b>	<b>28,918,177</b>	<b>63,374,085</b>	<b>(125,000)</b>	<b>2,914,602</b>	<b>19,737,504</b>	<b>2,898,594</b>	<b>324,567</b>	<b>89,124,352</b>

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

**ZK INTERNATIONAL GROUP CO., LTD**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(IN U.S. DOLLARS)**

	For the year ended September 30,		
	2021	2020	2019
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ (3,802,271)	\$ (837,016)	\$ 8,193,694
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation expense	568,038	438,467	375,286
Amortization expense	481,763	11,366	13,638
Loss on disposal of fixed assets	—	7,608	2,244
Bad debt expense	92,032	—	—
Inventory provision	—	103,942	—
Write-off of advance to suppliers	108,395	100,684	102,523
Deferred tax benefits	406,064	(406,637)	(1,958)
Non-cash service expense	—	—	50,679
Gain on disposal of subsidiary	—	(536,612)	—
Loss on investment	—	214,114	—
Change in unrecognized tax benefits	(918,038)	(1,021,565)	—
Stock compensation expense	1,351,082	—	—
Interest expense of convertible notes	210,173	—	—
Interest expense of financing lease	44,458	—	—
Changes in operating assets and liabilities:			
Accounts receivable	5,804,654	(4,800,889)	995,327
Other receivables	1,345,520	(793,936)	680,970
Notes receivable	201,187	206,465	13,119
Inventories	2,021,789	103,123	(3,846,722)
Advance to suppliers	(8,297,301)	2,933,852	596,380
Right of use assets	(53,634)	—	—
Accounts payable	(8,662,576)	5,582,787	2,593,103
Notes payable	(159,823)	(153,824)	308,005
Accrued expenses and other current liabilities	2,428,410	(484,477)	(1,314,005)
Accrued payroll and welfare	211,632	140,497	506,894
Advance from customers	3,162,961	(198,358)	(887,934)
Income tax payable	(77,214)	(149,386)	83,250
Lease liability	53,635	—	—
Net cash provided (used in) operating activities	<u>(3,479,064)</u>	<u>460,205</u>	<u>8,464,493</u>
<b>Cash Flows from Investing Activities:</b>			
Purchases of property, plant and equipment	(114,319)	(1,168,322)	(880,289)
Proceed from disposal of property, plant and equipment	—	6,281	5,963
Purchase of CIP	(47,942)	—	—
Disposal of intangible asset	—	—	—
Purchases of intangible assets	(1,983,812)	—	(11,149)
Investment into CG Malta	(25,000,000)	—	—
Net cash used in investing activities	<u>(27,146,073)</u>	<u>(1,162,041)</u>	<u>(885,475)</u>
<b>Cash Flows from Financing activities:</b>			
Net proceeds released from (placed into) short-term investment	(2,228,301)	—	559,030
Net proceeds received from (placed into) long-term deposit	—	—	(7,682,151)
Proceeds from short-term bank borrowings	31,203,129	18,061,979	25,875,962
Repayments of short-term bank borrowings	(28,144,978)	(17,836,445)	(28,199,497)
Net proceeds received from (repaid to) related parties	(280,313)	(133,007)	(2,279,911)
Proceed from other borrowing	—	775,951	—
Repayment of other borrowing	(483,458)	(107,195)	—
Proceeds from stock issuances	24,758,458	—	—
Proceeds from convertible notes issuances	14,071,908	—	—
Proceeds from stock warrants exercise	1,345,056	—	—
Net cash provided by (used in) financing activities	<u>40,241,501</u>	<u>761,283</u>	<u>(11,726,567)</u>
Effect of exchange rate changes on cash	<u>227,305</u>	<u>248,950</u>	<u>(83,902)</u>
Net change in cash, cash equivalents and restricted cash	9,843,669	308,397	(4,231,451)
Cash and cash equivalents and restricted cash at the beginning of period	3,759,535	3,451,138	7,682,589
Cash, cash equivalents and restricted cash at the end of period	<u>\$ 13,603,204</u>	<u>\$ 3,759,535</u>	<u>\$ 3,451,138</u>
<b>Supplemental disclosures of cash flows information:</b>			
Non-cash financing activities	\$ —	\$ —	\$ —
Cash paid for income taxes	\$ 37,041	\$ 149,291	\$ 170,331
Cash paid for interest expenses	\$ 338,575	\$ 991,319	\$ 1,197,504

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

## **NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS**

### **ZK International Group Co., Ltd. (“ZK International” or “the Company”)**

ZK International was incorporated on May 13, 2015 in the British Virgin Islands (“BVI”). ZK International is a holding company with no operations. The Company, through its subsidiaries, is a leading company that specializes in manufacturing and sales of stainless steel band, copper strip, welded stainless steel pipes and fittings, pipe fittings, valve, light industry machinery and equipment and other stainless steel products of its trademark “Zhengkang” in People’s Republic of China (“PRC”).

The Company is authorized to issue 50,000,000 ordinary shares, with no par value. 28,918,177 shares were issued and outstanding as of September 30, 2021. The ownership interests described below are based on the shareholders’ portion of the authorized ordinary shares. ZK International is a holding company and is currently not actively engaging in any business.

As of September 30, 2021, 23.04% of ZK International’s equity interest was held by two mainland Chinese beneficial owners, who entered an agreement on May 13, 2015 to vote their shares in concert in ZK International, covering all the periods presented afterwards, with HUANG Jian Cong holding 16.82% and WANG Guo Lin holding 6.22%.

### **ZK Pipe Industry Co., Ltd. (“ZK Pipe”)**

ZK Pipe was incorporated on May 28, 2015 in Hong Kong. The registered capital is HKD1,000,000 which was initially 40% held by ZK International and 60% held by CHENG Kai Chun, a nominee shareholder with no voting interest in ZK Pipe. On August 5, 2015, CHENG Kai Chun transferred all of his equity interest in ZK Pipe to ZK International. After the transfer, ZK International controls 100% of ZK Pipe’s voting interest and ZK Pipe became a wholly owned subsidiary of ZK International. The paid-in capital was zero as of September 30, 2021.

The registered principal activities of ZK Pipe are technical research of metal pipe and fittings, metal take-up valve plumbing and water purifying plant, and imports and exports of goods. ZK Pipe had not commenced operations as of September 30, 2021.

### **Wenzhou Weijia Pipeline Development Co., Ltd. (“Wenzhou Weijia”)**

Wenzhou Weijia was incorporated on June 17, 2015 in Wenzhou and is a wholly owned subsidiary of ZK Pipe. Wenzhou Weijia is a wholly-foreign owned enterprise organized under the laws of the People’s Republic of China. The registered capital is USD 20,000,000 and the paid-in capital was zero as of September 30, 2021.

The registered principal activities of Wenzhou Weijia are technical research, technical service and sales of metal pipe and fittings and light industry machinery and equipment, and imports and exports of goods and technology. Wenzhou Weijia had not commenced operations as of September 30, 2021.

### **Zhejiang Zhengkang Industrial Co., Ltd. (“Zhejiang Zhengkang”)**

Zhejiang Zhengkang was incorporated on December 4, 2001 under the laws of the People’s Republic of China. The registered and paid in capital is RMB 20,000,000. Since May 24, 2006, Zhejiang Zhengkang was owned by the five Mainland Chinese beneficial owners, with HUANG Jian Cong holding 45%, WANG Ming Jie holding 20%, WANG Guo Lin holding 20%, WANG Jian Di holding 10% and WANG Yang Ming holding 5%. Also, the five mainland Chinese beneficial owners entered an agreement on January 1, 2013 to vote their shares in concert in Zhejiang Zhengkang. The agreement has been in effect for all financial periods presented. On September 29, 2015, Wenzhou Weijia acquired 99% equity percentage of Zhejiang Zhengkang from the five mainland Chinese beneficial owners. After that, Zhejiang Zhengkang’s equity interest is 99% held by Wenzhou Weijia and 1% held by HUANG Jian Cong.

In July 2016, Zhejiang Zhengkang increased its registered and paid in capital to RMB30,000,000, with Wenzhou Weijia invested RMB 9,900,000 and HUANG Jian Cong invested RMB 100,000. On September 28, 2017, Zhejiang Zhengkang increased its registered capital to RMB100,000,000, with no additional investment into the paid-in capital.

The principal activities of Zhejiang Zhengkang are manufacturing and sales of stainless steel band, copper strip, welded stainless steel pipes and fittings, pipe fittings, valve, light industry machinery and equipment and other stainless steel products, and imports and exports of goods and technology.

### **Wenzhou Zhengfeng Industry and Trade Co., Ltd. (“Wenzhou Zhengfeng”)**

Wenzhou Zhengfeng was incorporated on December 24, 1999 under the laws of the People’s Republic of China. The registered and paid in capital is RMB 2,880,000. Since January 1, 2013, Wenzhou Zhengfeng’s voting interest was controlled by the five Mainland Chinese beneficial owners through agreement with two nominee shareholders. Also, the five mainland Chinese beneficial owners entered into an agreement on January 1, 2013 to vote their shares in concert in Wenzhou Zhengfeng. The agreement has been in effect since then. On June 8, 2015, 100% of Wenzhou Zhengfeng’s equity interest was transferred from nominee shareholders to the five mainland Chinese beneficial owners, with WANG Ming Jie holding 38.89%, WANG Guo Lin holding 27.78%, HUANG Jian Cong holding 22.57%, WANG Yang Ming holding 5.55% and WANG Jian Di holding 5.21%, respectively. On September 22, 2015, Zhejiang Zhengkang acquired 100% equity of Wenzhou Zhengfeng from the five mainland Chinese beneficial owners. After that, Wenzhou Zhengfeng is a wholly owned subsidiary of Zhejiang Zhengkang.

The principal activities of Wenzhou Zhengfeng are trading of steel coil and strip.

### **ZK International (ZK Uganda)**

ZK Uganda was incorporated on March 23, 2018 under the laws of the Republic of Uganda. Its registered capital is 20 Million Uganda Shillings, and the paid-in capital was zero as of September 30, 2018. ZK Uganda is 80% owned by ZK International and 20% owned by a third-party individual. ZK Uganda is currently not engaging in any business but plans to seek such opportunities that would complement and diversify the current business operations of the Company. The paid-in capital was zero as of September 30, 2021.

### **xSigma Corporation (“xSigma Corporation”)**

xSigma Corporation (“xSigma Corporation”) was incorporated on January 18, 2018 under the laws of the British Virgin Islands. Its registered capital is USD 50,000, and the paid-in capital was zero as of September 30, 2021. xSigma Corporation is 51% owned by ZK International. xSigma Corporation is a blockchain R&D lab that explores decentralized finance (“DeFi”) and cryptocurrency market. xSigma Corporation has been focused on two projects: DeFi protocol (stablecoin DEX) and the ETF-like protocol xTF by xSigma. The ultimate objective of xSigma Corporation is to build an ecosystem of products for finance and blockchain.

### **xSigma Collectibles Limited (“xSigma Collectibles”)**

xSigma Collectibles Limited (“xSigma Collectibles”) was incorporated on July 6, 2021 under the laws of the British Virgin Islands. Its registered capital is USD 100, and the paid-in capital was zero as of September 30, 2021. xSigma Collectibles launched MaximNFT (“MaximNFT”), available at www.maximnft.com, the exclusive NFT (Non-Fungible Token) marketplace of the iconic men’s lifestyle brand. MaximNFT seeks to provide the best customer experience and innovative NFT solutions. It will allow customers to create and sell NFTs on various blockchains, including, but not limited to, Ethereum, Binance Smart Chain, and Polkadot.

### **xSigma Entertainment Limited (“xSigma Entertainment”)**

xSigma Entertainment Limited (“xSigma Entertainment”) was incorporated on March 17, 2021 under the laws of the British Virgin Islands. Its registered capital is USD 50,000, and the paid-in capital was zero as of September 30, 2021. xSigma Entertainment is a holding entity and currently holds 15.73% ownership of CG Malta Holding Limited (“CG Malta”). CG Malta is a globally licensed sports betting and casino operator and launched MaximBet. MaximBet is sports betting and casino website, available at MaximBet.com and through iOS and Android applications that will allow users to bet on sports and casino in the United States and around the world.

### **xSigma Trading LLC (“xSigma Trading”)**

xSigma Trading LLC (“xSigma Trading”) was incorporated on June 7, 2021 under the laws of the Delaware, United States. Its registered capital was zero, and the paid-in capital was zero as of September 30, 2021. xSigma Trading is a holding entity and is currently not engaging in any business. The entity has not commenced operation as of September 30, 2021.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

**Presentation and Principles of Consolidation**

The accompanying consolidated financial statements and related notes have been prepared in accordance with generally accepted accounting principles in the United States of America. All inter-company transactions and balances have been eliminated upon consolidation.

<b>Entity Name</b>	<b>Registered Location</b>	<b>Background</b>	<b>Ownership as of the issuance date of the report</b>
ZK International	BVI	<ul style="list-style-type: none"> <li>• Incorporated on May 13, 2015</li> <li>• Registered capital of USD 50,000, not paid</li> <li>• A holding company with no operation activities itself for the years then ended</li> </ul>	16.82% by HUANG Jian Cong 6.22% by WANG Guo Lin
ZK Pipe	Hong Kong	<ul style="list-style-type: none"> <li>• Incorporated on May 28, 2015</li> <li>• Registered capital of HKD 1,000,000, not paid</li> <li>• Have not commenced operations</li> </ul>	100% by ZK International
Wenzhou Weijia	Wenzhou	<ul style="list-style-type: none"> <li>• Incorporated on June 17, 2015</li> <li>• Registered capital of USD 20,000,000, not paid</li> <li>• Have not commenced operations</li> </ul>	100% by ZK Pipe
Zhejiang Zhengkang	Wenzhou	<ul style="list-style-type: none"> <li>• Incorporated on December 4, 2001</li> <li>• Registered capital of RMB 100,000,000, RMB 30,000,000 paid</li> <li>• Principally operated in manufacturing and sales of steel strip, steel pipe and fittings</li> </ul>	99% by Wenzhou Weijia 1% by HUANG Jian Cong
Wenzhou Zhengfeng	Wenzhou	<ul style="list-style-type: none"> <li>• Incorporated on December 24, 1999</li> <li>• Registered capital of RMB 2,880,000, fully paid</li> <li>• Principally operated in trading of steel strip, mainly purchased from Zhejiang Zhengkang</li> </ul>	100% by Zhejiang Zhengkang
ZK Uganda	Uganda	<ul style="list-style-type: none"> <li>• Incorporated on March 23, 2018</li> <li>• Registered capital of 20 Million Uganda Shillings, not paid.</li> <li>• Have not commenced operations</li> </ul>	80% by ZK International
xSigma Corporation	BVI	<ul style="list-style-type: none"> <li>• Incorporated on January 18, 2018</li> <li>• Registered capital of USD 50,000, not paid</li> <li>• Have not commenced operations</li> </ul>	51% by ZK International
xSigma Collectibles Limited	BVI	<ul style="list-style-type: none"> <li>• Incorporated on July 6, 2021</li> <li>• Registered capital of USD 100, not paid</li> <li>• Principally operated in NFT (Non-Fungible Token) marketplace</li> </ul>	100% by ZK International
xSigma Entertainment Limited	BVI	<ul style="list-style-type: none"> <li>• Incorporated on March 17, 2021</li> <li>• Registered capital of USD 50,000, not paid</li> <li>• A holding company that holds ownership in CG Malta, a sports betting and casino operator</li> </ul>	100% by ZK International
xSigma Trading LLC	Daleware, United States	<ul style="list-style-type: none"> <li>• Incorporated on June 7, 2021</li> <li>• Registered capital and paid in capital was zero</li> <li>• Have not commenced operations</li> </ul>	100% by xSigma Corporation

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include, but are not limited to, allowances of accounts receivable, inventory valuation, useful life of property, plant and equipment and income taxes related to realization of deferred tax assets and uncertain tax position. Actual results could differ from those estimates.

**Foreign Currency Translation**

The financial records of the Company's PRC subsidiaries are maintained in their local currencies which are RMB and ZK Pipe in Hong Kong also use RMB as functional currency. Monetary assets and liabilities denominated in currencies other than their local currencies are translated into local currencies at the rates of exchange in effect at the balance sheet dates. Transactions denominated in currencies other than their local currencies during the year are converted into local currencies at the applicable rates of exchange prevailing when the transactions occur. Transaction gains and losses are recorded in other income/ (expense), net in the statements of operations and comprehensive income.

ZK International maintained its financial record using the United States dollar ("US dollar") as the functional currency, while the subsidiaries of the Company in Hong Kong and mainland China maintained their financial records using RMB as the functional currencies. The reporting currency of the Company is US dollar. When translating local financial reports of the Company's subsidiaries into US dollar, assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenue, expenses, gains and losses are translated at the average rate for the period. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income in the statements of operations and comprehensive income.

The relevant exchange rates are listed below:

	For the Fiscal Years		
	Ended September 30		
	2021	2020	2019
<b>Period Ended RMB: USD exchange rate</b>	6.4434	6.7896	7.1477
<b>Period Average RMB: USD exchange rate</b>	6.5072	7.0056	6.8753

**Cash and Cash Equivalents**

Cash and cash equivalents primarily consist of cash and deposits with financial institutions which are unrestricted as to withdrawal and use. Cash equivalents consist of highly liquid investments that are readily convertible to cash generally with original maturities of three months or less when purchased.

**Short-term Investment**

The Company's short-term Investment consists of short-term held-to-maturity investments, mainly term deposits, in commercial banks with original maturities of more than 90 day but less than one year. As of September 30, 2021, the Company has short-term investment of \$2,560,760, while it had \$294,568 short-term investment as of September 30, 2020.

### **Long-term Deposit**

Long-term deposit consists of cash deposit of RMB 80,367,541 Zhejiang Zhengkang pledged to two entities, which the Company is seeking to acquire certain percentage of ownership of each (“Target Company” or collectively “Target Companies”). The deposits are used as acquisition deposits required by the two Target Companies in order to execute their respective acquisition memorandum which details the acquisition and valuation methods but is not legally binding. As of September 30, 2021 the total deposits pledged were \$12,472,847, with \$11,533,902 to one Target Company and \$938,945 to the other. The fund pledged to the Target Companies have no definite term, however the Company anticipates the detailed acquisition proposals will be presented to the Board of Directors and shareholders of the Company for voting within one year. In the case that any acquisition is approved by both parties, the deposits will be used as initial payments and offset the total cash considerations of the deal. If any of the acquisition failed to be approved, the Target Companies are obligated to return the deposit to Zhejiang Zhengkang. As of September 30, 2021, the acquisition was neither approved or disapproved as the two acquisitions are still in the process of undergoing legal and financial due diligence, however one acquisition was terminated in the subsequent period. The potential acquisition for one target with deposit of \$11,533,902 was terminated due to the target was acquired by a Chinese State Owned Enterprise. Subsequent to yearend, management of the Company has reached an oral agreement with the target to convert the deposit amount to a loan. As the Company still outsourced part of its pipe production to the target, the loan can be used as the Company’s future outsourcing production fee payment or to be returned by the target.

### **Long-term investments**

Effective October 1, 2020, the Company adopted Accounting Standards Update (“ASU”) 2016-01 and related ASU 2018-03 concerning recognition and measurement of financial assets and financial liabilities. In adopting this new guidance, the Company has made an accounting policy election to adopt an adjusted cost method measurement alternative for investments in equity securities without readily determinable fair values.

For equity investments that are accounted for using the measurement alternative, the Company initially records equity investments at cost but is required to adjust the carrying value of such equity investments through earnings when there is an observable transaction involving the same or a similar investment with the same issuer or upon an impairment.

### **Accounts Receivable, net**

Accounts receivable arise from the product sales in the normal course of business. The Company usually determines the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. The Company establishes a provision for doubtful receivables when there is objective evidence that the Company may not be able to collect amounts due. The allowance is based on management’s best estimates of specific losses on individual exposures. Based on management of customers’ credit and ongoing relationship, management makes conclusions whether any balances outstanding at the end of the period will be deemed uncollectible on an individual basis and on aging analysis basis. The provision is recorded against accounts receivables balances, with a corresponding charge recorded in the consolidated statements of income and comprehensive income. Uncollectible receivable are written-off against the allowance for doubtful accounts after management has determined that the likelihood of collection is not probable.

The allowance for doubtful accounts recognized as of September 30, 2021 and 2020 was \$2,221,870 and \$2,020,373, respectively.

### **Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is principally determined using the weighted-average method. The Company records adjustments to inventory for excess quantities, obsolescence or impairment when appropriate to reflect inventory at net realizable value. These adjustments are based upon a combination of factors including current sales volume, market conditions, lower of cost or market analysis and expected realizable value of the inventory.

Provision for inventory recognized as of September 30, 2021 and 2020 were \$113,011 and \$107,248, respectively.

### **Advance to Suppliers and Advance from Customers**

Advance to suppliers refer to advances for purchase of materials or other service agreements, which are applied against trade accounts payable when the materials or services are received. Advance from customers refer to advances received from customers regarding product sales, which are applied against accounts receivable when products are sold.



The Company reviews a supplier's credit history and background information before advancing a payment. If the financial condition of its suppliers were to deteriorate, resulting in an impairment of their ability to deliver goods or provide services, the Company would write off such amount in the period when it is considered impaired. During fiscal year ended September 30, 2021 and 2020, the Company wrote off advance to suppliers of \$nil and \$103,887, respectively.

#### **Fair Value of Financial Instruments**

ASC Topic 820, Fair Value Measurements and Disclosures, requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, Financial Instruments, defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities that qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in inactive 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 use one or more unobservable inputs which are significant to the fair value measurement.

For the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, short-term investment, notes receivable, notes payable, bank loans, other receivables and other borrowings, the carrying amounts approximate their fair values due to their short maturities as of September 30, 2021 and 2020. For lease liabilities, fair value approximates their carrying value at the year end as the interest rates used to discount the host contracts approximate market rates. The company did not identify any instruments that were measured at fair value on a recurring nor non-recurring basis for the year ended September 30, 2021 and 2020. During the year ended September 30, 2021, the Company issued convertible notes and the convertible notes issued were classified as liabilities and measured at fair value on the issuance date, with changes in fair value recognized as other expense on the consolidated statements of operations and disclosed in the consolidated financial statements.

#### **Property and Equipment, net**

Property, plant, and equipment are recorded at cost less accumulated depreciation. Depreciation commences upon placing the asset in usage and is recognized on a straight-line basis over the estimated useful lives of the assets, as follows:

	<b>Useful lives</b>
Buildings	40 years
Machinery	10 years
Furniture, fixtures, and equipment	10 years
Motor vehicles	10 years

Upon retirement or disposition, the asset cost and related accumulated depreciation are removed with any gain or loss recognized in the consolidated statements of operations and comprehensive income. Repair and maintenance costs that do not extend the economic life of the underlying assets are expensed as incurred.

Costs incurred in constructing new facilities, including progress payments and other costs related to construction, are capitalized, and transferred to property, plant and equipment on completion, at which time depreciation commences.

#### **Intangible Assets**

Intangible assets consist primarily of land use rights and software. Under the PRC law, all land in the PRC is owned by the government and cannot be sold to an individual or company. The government grants individuals and companies the right to use parcels of land for specified periods of time and these land use rights are sometimes referred to informally as "ownership." Land use rights are stated at cost less accumulated amortization. For the internal use software developed by both internal team and by external entity under development arrangements, the costs incurred during the Application Development Stage were capitalized pursuant to ASC 350-40-25.

Intangible assets are amortized using the straight-line method with the following estimated useful lives:

	<b>Useful lives</b>
Land use rights	46 years
Software	5 years

#### **Impairment of Long-lived Assets**

The Company management review the carrying values of long-lived assets whenever events and circumstances, such as a significant decline in the asset's market value, obsolescence or physical damage affecting the asset, significant adverse changes in the assets use, deterioration in the expected level of the assets performance, cash flows for maintaining the asset are higher than forecast, indicate that the net book value of an asset may not be recovered through expected future cash flows from its use and eventual disposition. If the estimated cash flows from the use of the asset and its eventual disposition are below the asset's carrying value, then the asset is deemed to be impaired and written down to its fair value.

There was no impairment charge recognized for long-lived assets as of September 30, 2021, 2020 and 2019.

#### **Leases**

Effective October 1, 2019, the Company accounts for its leases under ASC 842, *Leases* ("ASC 842"). Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases, and are recorded on the consolidated balance sheet as both a right of use asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right of use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right of use asset result in straight-line rent expense over the lease term.

In calculating the right of use asset and lease liability, the Company elects to combine lease and non-lease components as permitted under ASC 842. The Company excludes short-term leases having initial terms of 12 months or less from the new guidance as an accounting policy election and recognizes rent expense on a straight-line basis over the lease term.

The Company continues to account for leases in the prior period financial statements under ASC Topic 840.

#### **Value-added Tax**

Value-added taxes ("VAT") collected from customers relating to product sales and remitted to governmental authorities are presented on a net basis. VAT collected from customers is excluded from revenue. The Company is subject to a VAT rate of 17% before May 1, 2018, a VAT rate of 16% effective on May 1, 2018, and the most current VAT rate of 13% effective on April 1, 2019. The VAT payable may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing or acquiring its finished products.

#### **Convertible note, net**

The Company evaluated the convertible notes issued pursuant to the ASC 470-20-25-4 Beneficial Conversion Feature ("BCF") guidance. The BCF was measured the intrinsic values for convertible notes on the commitment dates, which are the dates that the agreements were signed with the investors. The Company's convertible notes both have stated redemption dates (maturity dates), which are 12 months from the issuance dates, the BCF values will be accreted from issuance date to the conversion date or the stated maturity date, whichever is earlier. The accretion calculation is based on effective interest rate method consistent with the ordinary debt instruments.

#### **Stock-based compensation**

The Company accounts for share-based payment exchanged for services at the estimated grant date fair value. The Company estimates the fair value of stock option grants using the Black-Scholes option pricing model and the Company estimates the stock warrants by performing Monte Carlo simulation analysis to calculate the fair value of the committed warrants. The Company's share price was simulated under a risk-neutral framework using Geometric Brownian Motion ("GBM"). The daily share price was simulated from the valuation date through to the latest expiry date. The assumptions used in calculating the fair value of stock-based compensation represent management's best estimates and involve inherent uncertainties and the application of management's judgment.

*Expected Term* - The expected term of options represents the period that the Company's stock option are expected to be outstanding based on the simplified method, which is the half-life from vesting to the end of its contractual term.

*Expected Volatility* - The Company computes stock price volatility over expected terms based on its historical common stock trading prices.

*Risk-Free Interest Rate* - The Company bases the risk-free interest rate on the implied yield available on U. S. Treasury zero-coupon issues with an equivalent remaining term.

*Expected Dividend* - The Company has never declared or paid any cash dividends on its common shares and does not plan to pay cash dividends in the foreseeable future, and, therefore, uses an expected dividend yield of zero in its valuation models.

### **Revenue Recognition**

The Company generates its revenues mainly from sales of steel piping products and sales of steel materials such as stainless steel coil and strip. The Company follows Financial Accounting Standards Board (FASB) ASC 606 and accounting standards updates ("ASU") 2014-09 for revenue recognition. On October 1, 2018, the Company has early adopted ASC 606, which is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company considers revenue realized or realizable and earned when all the five following criteria are met: (1) Identify the Contract with a Customer, (2) Identify the Performance Obligations in the Contract, (3) Determine the Transaction Price, (4) Allocate the Transaction Price to the Performance Obligations in the Contract, and (5) Recognize Revenue When (or As) the Entity Satisfies a Performance Obligation. Results for reporting periods beginning after October 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the previous accounting standards ASC 605. The Company has assessed the impact of the guidance by reviewing its existing customer contracts and current accounting policies and practices to identify differences that will result from applying the new requirements, including the evaluation of its performance obligations, transaction price, customer payments, transfer of control and principal versus agent considerations. Based on the assessment, the Company concluded that there was no change to the timing and pattern of revenue recognition for its current revenue streams in scope of Topic 606 and there was no material unfinished contracts with customers upon adoption of ASC 606, therefore there was no material changes to the Company's consolidated financial statements upon adoption of ASC 606, and there have not been any significant changes to company's business processes, systems, or internal controls as a result of implementing the standard.

The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. As part of its consideration of the contract, the Company evaluates certain factors including the customer's ability to pay (or credit risk). For each contract, the Company considers the promise to transfer products, each of which are distinct, to be the identified performance obligations.

In determining the transaction price the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. The Company has assessed the financing component on contract basis, and conclude there is no significant financing component exist either implicitly or explicitly. The Company allocates the transaction price to each distinct product based on their relative standalone selling price.

Revenues are reported net of all value added taxes. The Company does not routinely permit customers to return products, while in certain conditions product changes are allowed, and historically customer returns have been immaterial and due to the nature of company's products no warranty is offered. Revenue is recognized when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied at a point in time), which typically occurs at delivery.

Since February 2021, xSigma Corporation launched a stable coin exchange platform which is built on smart contract. Liquidity provider who provides liquidity for certain stable coin on the exchange is awarded a certain amount of SIG token, a governance token issued by the smart contract. The SIG holder is entitled to the commission revenue generated by the exchange and as the project founder xSigma Corporation is holding 30% all SIG token issued and outstanding. Though SIG was listed on one cryptocurrency exchange and has public market price, however due to the token's low trading volume and unstable market price the Company decides not to recognize revenue for the token it owned until monetization of the token. There is currently no specific definitive guidance under GAAP or alternative accounting framework for the accounting for digital currencies recognized as revenue or held, and management has exercised significant judgment in determining the appropriate accounting treatment. In the event authoritative guidance is enacted by the FASB, the Company may be required to change its policies, which could have an effect on the Company's consolidated financial position and results from operations.

## **Government Grant**

Government grants are recognized when received and all the conditions for their receipt have been met.

Government grants as the compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related cost are recognized in profit or loss in the period in which they become receivable. During the years ended as of September 30, 2021, 2020 and 2019, \$446,480, \$327,651, and \$912,844, respectively, government grants were recognized as other income for financial support to the Company under local government's innovation incentive programs.

## **Research and Development Costs**

Research and development costs are expensed as incurred. Research and development reimbursements and grants received from government are recorded by the Company as a reduction of research and development costs.

## **Income Taxes**

The Company accounts for income taxes using the asset and liability method whereby it calculates deferred tax assets or liabilities for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying enacted tax rates applicable to the years in which those temporary differences are expected to be reversed or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as non-current amounts.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Tax benefits (expense) recorded as of September 30, 2021 and 2020 were (\$406,064) and \$406,637, respectively.

## **Advertising costs**

Advertising costs are expensed as incurred in accordance with ASC 720-35 Other Expense-Advertising costs. Advertising costs were \$104,661, \$82,884, and \$306,288 for years ended September 30, 2021, 2020 and 2019, respectively.

## **Earnings Per Share**

Earnings (loss) per share is calculated in accordance with ASC 260 Earnings per Share. Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed in accordance with the treasury stock method and based on the weighted average number of common shares and dilutive common share equivalents. Dilutive common share equivalents are excluded from the computation of diluted earnings per share if their effects would be anti-dilutive.

## **Concentration of Risks**

### *Exchange Rate Risks*

The Company operates in China, which may give rise to significant foreign currency risks mainly from fluctuations and the degree of volatility of foreign exchange rates between the USD and the RMB.

### *Currency Convertibility Risks*

Substantially all of the Company's operating activities are transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other regulatory institutions requires submitting a payment application form together with other information such as suppliers' invoices, shipping documents and signed contracts.

### Concentration of Credit Risks

Financial instruments that potentially subject the Company to concentration of credit risks consist primarily of cash and cash equivalents, short-term investment, notes receivable, accounts receivable and other receivables, the balances of which are stated on the consolidated balance sheets which represent the Company's maximum exposure. The Company places its cash and cash equivalents, and short-term investment in good credit quality financial institutions in Hong Kong and China. Concentration of credit risks with respect to accounts receivable is linked to the concentration of revenue. To manage credit risk, the Company performs ongoing credit evaluations of customers' financial condition. The concentration analysis of our revenue and accounts receivable is shown in Note 15.

### Interest Rate Risks

The Company is subject to interest rate risk. The Company has bank interest bearing loans charged at variable interest rates. And although some bank interest bearing loans are charged at fixed interest rates within the reporting period, the Company is still subject to the risk of adverse changes in the interest rates charged by the banks when these loans are refinanced.

### Recent Accounting Pronouncements

#### New Accounting Pronouncements Recently Adopted

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). The amendments in this ASU modify the disclosure requirements on fair value measurements. ASU 2018-13 is effective for public entities for fiscal years beginning after December 15, 2019, with early adoption permitted for any removed or modified disclosures. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The Company does not plan to early adopt ASU 2018-13 or expect this update will have a material impact on the Company's consolidated financial position, results of operations and cash flows.

#### New Accounting Pronouncements Not Yet Adopted

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*: Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, which simplifies accounting for convertible instruments by removing major separation models required under current GAAP. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception and it also simplifies the diluted earnings per share calculation in certain areas. This ASU is effective for annual reporting periods beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. This update permits the use of either the modified retrospective or fully retrospective method of transition. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements and related disclosures.

### NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of September 30, 2021 and 2020:

	As of September 30,	
	2021	2020
Accounts receivable, gross	\$ 29,346,829	\$ 33,413,662
Less: allowance for doubtful accounts	(2,221,870)	(2,020,373)
Accounts receivable, net	\$ 27,124,959	\$ 31,393,289

The Company recorded \$92,943 and nil bad debt expense during the year ended September 30, 2021 and 2020, respectively. There was no bad-debt write-off recorded by the Company during the years ended September 30, 2021 and 2020.

As of September 30, 2021 and 2020, the Company pledged accounts receivable of \$2,053,490 and \$1,829,454 to secure banking facilities granted to the Company.

Changes of allowance for doubtful accounts for the years ended September 30, 2021 and 2020 are as follow:

	As of September 30,	
	2021	2020
Beginning balance	\$ 2,020,373	\$ 1,919,152
Additional reserve through bad debt expense	92,943	—
Exchange difference	108,554	101,221
Ending balance	<u>\$ 2,221,870</u>	<u>\$ 2,020,373</u>

#### NOTE 4 –OTHER RECEIVABLES

Other receivables consisted of mainly the legal claims to be collected from the Company's debtors and uncollected proceeds due from the disposition of subsidiary.

During 2010, the Company entered into two loan agreements with Raozhou Dianli Ltd and Xianjin Cao, and advanced RMB9 million on the first loan and RMB 1.5 million on the second loan, totaled RMB 10.5 million (approximately USD 1.52 million). The terms of these two loans are both one year. Both borrowers defaulted and didn't make any repayment when the terms expired. The Company thus sued these two parties and pursuant to the final judgment ruled by Jiangsu High People's Court, the Company is entitled to a repayment of RMB 10.5 million plus interest with an interest rate that is four times higher than the normal interest rate in the corresponding period. The claim has been covered by real estate assets of Raozhou Dianli Ltd, which have been seized by the Court and has an appraised value of RMB 143.1 million, or about USD 21.5 million as of September 19, 2017, according to the appraisal report, which is much higher than the Company's claim. The Company is listed as the first-in-line creditor and the management believes that the repayment of RMB 10.5 million and outstanding interest is reasonably assured. The Company recorded RMB 10.5 million as Other Receivable. As of September 30, 2021 and 2020, the outstanding balance is RMB 4.4 million (USD 0.68 million) and RMB 4.4 million (USD 0.65 million), respectively.

In the opinion of the management, after consultation with the Company's legal counsel, the management believes it is assured the balance will be collected as the debtor has real properties seized by the Court worth much more than the debt owed to the Company.

Other receivables also consist of uncollected proceeds due from the disposition of Wenzhou Zhenglong Ecommerce Co. Ltd (Zhenglong). On September 30, 2020, the Company sold all its equity interests of Zhenglong with the consideration of RMB 4,500,000. As of September 30, 2021 and 2020, the outstanding balance is RMB 4.5 million (USD 0.70 million) and RMB 4.5 million (USD 0.66 million), respectively.

#### NOTE 5 – INVENTORIES

Inventories as of September 30, 2021 and 2020 consisted of the following:

	As of September 30,	
	2021	2020
Raw materials	\$ 5,527,560	\$ 5,310,404
Work-in-process	5,925,186	9,372,167
Finished goods	9,349,517	7,103,935
Provision for inventory impairment	(113,011)	(107,248)
Total	<u>\$ 20,689,252</u>	<u>\$ 21,679,258</u>

As of September 30, 2021 and 2020, the Company pledged inventories of \$2,793,556 and \$2,651,113 to secure banking facilities granted to the Company, respectively.

**NOTE 6 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consisted of the following as of September 30, 2021 and 2020:

	As of September 30,	
	2021	2020
Buildings	\$ 6,217,128	\$ 5,486,663
Machinery	6,960,604	6,412,009
Furniture, fixtures and equipment	652,363	588,302
Motor vehicles	250,945	238,149
Total property plant and equipment, at cost	14,081,040	12,725,123
Less: accumulated depreciation	(6,076,185)	(5,221,949)
	8,004,855	7,503,174
Construction in progress (“CIP”)	—	367,506
Property, plant and equipment, net	<u>\$ 8,004,855</u>	<u>\$ 7,870,680</u>

Depreciation expense was \$568,038 and \$438,467 for the years ended September 30, 2021 and 2020, respectively.

As of September 30, 2021 and 2020, the Company pledged buildings and machinery to secure banking facilities granted to the Company. The carrying values of the pledged buildings to secure bank borrowings by the Company are shown in Note 11.

**NOTE 7 – INTANGIBLE ASSETS**

	As of September 30,	
	2021	2020
Land use rights, cost	\$ 617,895	\$ 586,389
Software, cost	8,803,367	517,954
Other intangible assets, cost	1,732	1,643
Less: accumulated amortization	(673,007)	(176,965)
Intangible assets, net	<u>\$ 8,749,987</u>	<u>\$ 929,021</u>

The land use right represents the Company’s land use rights in Wenzhou’s plant, which had been pledged to secure the Company’s banking facilities granted to the Company as of September 30, 2021 and 2020. The carrying values of the pledged land use rights to secure bank borrowings by the Company are shown in Note 11.

During the fiscal year ended September 30, 2021, the Company entered into a series of consulting agreements with third-party entity and individuals to develop and implement the following software platforms:

- The DeFi (decentralized finance) Protocol, a stablecoin DEX (decentralized exchange) and liquidity mining platform, available at <https://xsigma.fi>.
- Two flagship trading platforms, “xSigma Trading” for CFD trading and “xSigma Trader” for Crypto, Crypto Options and Crypto derivatives.
- MaximNFT platform (“MaximNFT”), available at [www.maximnft.com](http://www.maximnft.com), the exclusive NFT (Non-Fungible Token) marketplace partners with Maxim, the iconic men’s lifestyle brand. It will allow customers to create and sell NFTs on various blockchains, including, but not limited to, Ethereum, Binance Smart Chain, and Polkadot.

The software platforms are intended for internal use which is to provide services to customers and the Company does not have any plan to market the software for sales externally. In exchange of the development services provided, the Company paid consideration in the form of cash, stock and stock warrants, and all the costs incurred during the Application development Stage were capitalized pursuant to ASC 350-40-25.

Amortization expense was \$481,763 and \$11,366 for the years ended September 30, 2021 and 2020, respectively.

**NOTE 8 – LONG-TERM INVESTMENT**

The Company made an investment in Wenzhou Longlian Development Co., Ltd. (“Longlian”), a private company incorporated in PRC, in 2011 by RMB 2,083,300 with equity percentage of 2.0833%. The principal activities of Longlian are property and infrastructure construction. As of September 30, 2021 and 2020, the Company carried this investment at its cost in the amount of \$323,323 and \$306,837, respectively. During 2021 and 2020 fiscal years, the Company received no dividend income from Longlian.

On April 8, 2021, ZK International Group Co., Ltd., a British Virgin Islands company (the “Company”), through its wholly-owned subsidiary xSigma Entertainment Limited (“xSigma Entertainment”) entered into a Subscription of Shares Agreement (the “Subscription Agreement”) with CG Malta Holding Limited (“CG Malta”) on April 4, 2021, pursuant to which xSigma Entertainment acquired 12% interest in CG Malta through xSigma Entertainment for US\$15 million and agreed to subscribe to an additional number of ordinary shares in CG Malta for a total purchase price of US\$5 million, which will guarantee to xSigma Entertainment an additional 13% interest in CG Malta, subject to the signing of a separate subscription agreement not later than four months from April 4, 2021. On August 4, 2021, xSigma Entertainment entered into an amendment to the Subscription Agreement, pursuant to which the subscription to the ordinary shares in CG Malta for a total purchase price of US\$35 million will be subject to signing of a separate subscription agreement no later than January 1, 2022. The Company completed an investment of US\$10 million in CG Malta in September 2021, and as a result of the investment the Company has an ownership of 15.73% on CG Malta. On December 27, 2021, xSigma Entertainment entered into a second amendment to the Subscription Agreement (the “Second Amendment”). Pursuant to the Second Amendment, the subscription to the ordinary shares in CG Malta for a total purchase price of US\$25 million will be subject to signing of a separate subscription agreement no later than April 30, 2022, of which US\$5 million shall be completed no later than February 15, 2022 and another US\$5 million shall be completed no later than March 15, 2022.

The Company’s equity investment in CG Malta is accounted for under ASC 321 Investment: Equity Securities. The Company has elected the measurement alternative under ASC 321 to use cost minus impairment method for the subsequent measurement of its equity investment. As of September 30, 2021, the Company carried this investment at its cost in the amount of \$25,000,000. For the year ended September 30, 2021, no impairment was recognized for the investment in CG Malta.

**NOTE 9 – RELATED PARTY TRANSACTIONS**

Net amounts due to related parties consisted of the following as of September 30, 2021 and 2020:

Accounts	Name of related parties	As of September 30,	
		2021	2020
Related party payables	Shareholder, HUANG Jian Cong	\$ 974,216	\$ 1,187,339
Related party payables	Other Affiliates of the Company	98,119	128,464
Due from Related Parties	Other Affiliates of the Company	—	47,135

This represented unsecured and interest free borrowings between the Company and Huang Jiancong and other related parties to the Company. For the years end September 30, 2021 and 2020, the Company had outstanding loans with total amount of \$974,216 and \$1,187,339 from its shareholder, HUANG Jian Cong. As of September 30, 2020 the Company had outstanding amount due from one related party with an amount of \$47,135, which was fully collected during fiscal year 2021.

**NOTE 10 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consisted of the following as of September 30, 2021 and 2020:

	As of September 30,	
	2021	2020
VAT payable	\$ 4,740,889	\$ 3,884,924
Other tax payables	80,592	53,521
Other	2,054,288	234,336
Total	\$ 6,875,769	\$ 4,172,781

Other current liabilities contain primarily unsecured, due on demand and interest free short-term loan to the Company from third party entities and deposits for bidding from suppliers to the Company.



**NOTE 11 – SHORT-TERM BANK BORROWINGS**

Short-term bank borrowings consisted of the following at September 30, 2021:

Bank Name	Amount - RMB	Amount - USD	Issuance Date	Expiration Date	Interest
Bank of China	5,650,000	876,866	2021-08-30	2022-08-26	5.27 %
Bank of China	4,250,000	659,590	2021-09-06	2022-09-01	5.27 %
China Merchants Bank	7,000,000	1,086,383	2021-05-25	2021-11-24	4.55 %
China Merchants Bank	5,000,000	775,988	2021-05-31	2021-11-24	4.55 %
China Merchants Bank	4,000,000	620,790	2021-06-09	2021-11-24	4.55 %
Industrial Bank	6,000,000	931,185	2021-02-01	2022-02-01	5.22 %
Industrial Bank	7,000,000	1,086,383	2021-02-02	2022-01-26	5.22 %
China Minsheng Bank	45,000,000	6,983,890	2021-03-24	2022-03-20	4.50 %
China Minsheng Bank	9,000,000	1,396,778	2021-03-26	2022-03-20	4.50 %
China Minsheng Bank	3,000,000	465,593	2021-03-31	2022-03-20	4.50 %
China Minsheng Bank	4,000,000	620,790	2021-05-18	2022-05-18	4.50 %
China Minsheng Bank	5,000,000	775,988	2021-06-17	2022-06-10	3.50 %
China Minsheng Bank	5,000,000	775,988	2021-08-12	2022-08-11	3.50 %
China Minsheng Bank	5,000,000	775,988	2021-06-21	2022-06-23	3.50 %
CZBANK	980,000	152,094	2020-12-16	2021-11-18	5.50 %
CZBANK	1,000,000	155,198	2021-07-15	2022-04-07	5.60 %
CZBANK	4,600,000	713,909	2020-12-14	2021-11-11	5.50 %
CZBANK	2,140,000	332,123	2020-11-25	2021-11-09	5.50 %
CZBANK	1,960,000	304,187	2020-11-17	2021-11-02	5.80 %
CZBANK	1,275,000	197,877	2020-11-18	2021-11-04	5.80 %
CZBANK	2,000,000	310,395	2020-12-16	2021-11-16	5.50 %
CZBANK	2,000,000	310,395	2021-04-13	2022-04-11	6.00 %
Bank of Communications	7,000,000	1,086,383	2021-07-15	2022-07-06	4.65 %
Total	<u>137,855,000</u>	<u>21,394,761</u>			

Short-term bank borrowings consisted of the following at September 30, 2020:

Bank Name	Amount - RMB	Amount - USD	Issuance Date	Expiration Date	Interest
Agricultural Bank - Longwan Branch	1,300,000	191,469	7/1/2020	6/1/2021	5.10 %
Agricultural Bank - Longwan Branch	3,000,000	441,852	2/28/2020	2/1/2021	2.85 %
Agricultural Bank - Longwan Branch	5,750,000	846,883	7/9/2020	7/1/2021	5.10 %
Agricultural Bank - Longwan Branch	6,000,000	883,704	8/10/2020	8/1/2021	5.10 %
Agricultural Bank - Longwan Branch	6,190,000	911,688	11/4/2019	11/1/2020	5.66 %
Agricultural Bank - Longwan Branch	7,580,000	1,116,413	8/14/2020	8/13/2021	5.10 %
Agricultural Bank - Longwan Branch	8,000,000	1,178,273	11/13/2019	11/11/2020	5.66 %
Agricultural Bank - Longwan Branch	8,700,000	1,281,372	12/23/2019	12/1/2020	5.70 %
Bank of China	4,250,000	625,957	9/7/2020	9/2/2021	5.27 %
Bank of China	5,750,000	846,883	9/3/2020	8/31/2021	5.27 %
China Merchants Bank	16,500,000	2,430,187	12/13/2019	12/20/2020	4.55 %
Industrial Bank	1,000,000	147,284	6/2/2020	3/2/2021	5.50 %
Industrial Bank	1,900,000	279,840	12/26/2019	12/26/2020	5.22 %
Industrial Bank	3,000,000	441,852	11/1/2019	10/21/2020	6.00 %
Industrial Bank	5,000,000	736,420	10/30/2019	10/30/2020	6.00 %
Industrial Bank	5,000,000	736,420	10/31/2019	10/26/2020	6.00 %
China Minsheng Bank	2,800,000	412,395	6/11/2020	6/11/2021	5.80 %
China Minsheng Bank	3,000,000	441,852	6/12/2020	6/12/2021	5.80 %
CZBANK	550,000	81,006	4/9/2020	11/26/2020	6.00 %
CZBANK	1,105,000	162,749	4/13/2020	11/20/2020	6.00 %
CZBANK	1,580,000	232,709	4/16/2020	11/23/2020	6.00 %
CZBANK	2,140,000	315,188	4/10/2020	12/10/2020	6.00 %
CZBANK	2,970,000	437,434	4/10/2020	1/6/2021	6.00 %
CZBANK	4,610,000	678,980	4/17/2020	12/24/2020	6.00 %
CZBANK	1,980,000	291,622	4/13/2020	10/23/2020	6.00 %
Bank of Communications	3,300,000	486,037	2/13/2020	2/9/2021	6.15 %
Bank of Communications	5,000,000	736,425	2/11/2020	2/9/2021	6.15 %
<b>Total</b>	<b>117,955,000</b>	<b>17,372,894</b>			

The Company's short-term bank borrowings are pledged by its assets as listed below, and guaranteed by the Company's major shareholders: HUANG Jian Cong, WANG Jian Di, WANG Guo Lin, WANG Min Jie, and WANG Yang Ming, and their immediate family members.

The carrying values of the Company's pledged assets to secure short-term borrowings by the Company are as follows:

	As of September 30,	
	2021	2020
Accounts receivable	\$ 2,053,490	\$ 1,829,454
Buildings, net	4,508,834	4,409,238
Land use rights, net	419,721	411,067
Machinery, net	92,761	95,078
Inventory	2,793,556	2,651,113
Total	\$ 9,868,362	\$ 9,395,950

#### NOTE 13 – COMMITMENT AND CONTINGENCIES

The Company, from time to time, may be a party to claims and legal proceedings generally incidental to its business. As of September 30, 2021, Company has no material purchase commitments, significant leases and unused letter of credit.

The Company has one pending legal claim against a third party as of September 30, 2021. See Note 4 for disclosure related to the claim with Raozhou Dianli Ltd. There were no other legal matters that are likely to have a material adverse effect on the Company's financial position as of September 30, 2021 and 2020 and the results of operations or cash flows for the years ended September 30, 2021 and 2020.

#### **NOTE 14 – UNCERTAIN TAX POSITION**

In the normal course of its business, our Company, including in particular Zhejiang Zhengkang and Wenzhou Zhengfeng, may be subject to challenges from various PRC taxing authorities regarding the amounts of taxes due. Although the Company's management believes the Company has paid all accrued for all taxes owed by the Company, from time to time, in order for our Company to stay competitive in the market, we may need to accept unfavorable contract terms from our clients, including the accrue of accounts receivables for the delivery of our products until the completion of a certain construction project and without recognizing the revenue in the interim. PRC taxing authorities may also take the position that the Company owes more taxes than it has paid based on transactions conducted by ZK Pipe, which may be deemed a resident enterprise, thereby resulting in taxable liability for Zhejiang Zhengkang.

In addition, the Company recorded a potential income tax liability of \$2,354,832 and \$3,188,615 for the years ended September 30, 2021 and 2020, respectively, and for the possible underpayment of income and other taxes, not include potential interests or penalties. It is possible that the tax liability of the Company for past taxes may be higher than those amounts. The Company's management believes it has sufficient cash on hand to adequately meet any tax liability for the underpayment of income and VAT taxes. Additionally, the Company's management believes it may be able to negotiate with local PRC taxing authorities a reduction to any amounts that such authorities may believe are due and a reduction to any interest or penalties thereon. We have no guarantee that we will be able to negotiate such a reduction. To the extent our Company is able to negotiate such amounts, the Company records such reduction as unrecognized tax benefits due to the fact that national-level taxing authorities may take the position that localities are without power to reduce such liabilities, and such PRC taxing authorities may attempt to collect unpaid taxes. The PRC tax law provides statute of limitations of 3 years to collect unpaid taxes. The Company recognizes the portion of unrecognized tax benefit that is beyond 3 years as reduction of its tax liabilities due to the fact that the statute of limitations for the relevant taxing authorities to examine and challenge the tax position has expired. The changes of unrecognized tax benefit recorded by the Company are shown in Note 20.

#### **NOTE 15 – CUSTOMER AND SUPPLIER CONCENTRATION**

Significant customers and suppliers are those that account for greater than 10% of the Company's revenues and purchases.

The Company had no such significant customer who account for greater than 10% of the company's revenue for the fiscal year ended September 30, 2021 and 2020. The Company had one customer who accounted for more than 10% of total accounts receivable as of September 30, 2021, the customers had accounts receivable balance of \$3,198,069 which represents 11.79% of total accounts receivable. The Company had two customers who accounted for more than 10% of total accounts receivable as of September 30, 2020, and the two customers had accounts receivable balance of \$3,697,779 and \$5,513,922 which represents 11.78% and 17.56% of total accounts receivable, respectively.

For the year ended September 30, 2021, three suppliers accounted for 34.69%, 27.32% and 10.51% of the Company's total raw material purchase, respectively. The Company had two suppliers who accounted for more than 10% of total accounts payable as of September 30, 2021, the suppliers had accounts payable balance of \$314,353 and \$259,160 which represents 14.56% and 12.00% of total accounts payable, respectively. For the year ended September 30, 2020, the Company had 4 significant vendors collectively accounted for 70.10%. The Company had one supplier who accounted for more than 10% of total accounts payable as of September 30, 2020, the supplier had accounts payable balance of \$7,008,387 which represents 67.70% of total accounts payable. The Company believes there are numerous other suppliers that could substitute the current significant vendors should they become unavailable or non-competitive.

#### **NOTE 16 – CONVERTIBLE NOTES**

On September 28, 2020, ZK entered into Convertible Debenture agreements with certain unaffiliated investors identified therein (each an **Holder**' and collectively "**Holders**"). The convertible debentures, with aggregate principal amount of \$1.4 million and 5% annual interest rate, are exercisable for a period of one year at an exercise price of 70% of the average closing price during the seven (7) consecutive Trading Days immediately preceding the Conversion Date, but not lower than the Floor Price of \$0.62 per share. The transaction was closed on October 20, 2020 and full proceeds were received. As of September 30, 2021, all Holders have demanded to convert their convertible debentures and a total of 1,394,253 shares were issued to Investors.

On August 26, 2021, ZK entered into Convertible Debenture agreements with certain unaffiliated investors identified therein (each an **Holder**” and collectively **“Holders”**). The convertible debentures, with aggregate principal amount of \$12.7 million and 5% annual interest rate, are exercisable for a period of one year at an exercise price of 80% of the volume weighted average closing price during the seven (7) consecutive Trading Days immediately preceding the Conversion Date, but not lower than the Floor Price of \$2.5 per share. The transaction was closed on September 27, 2021 and full proceeds were received. As of September 30, 2021, a majority of Holders have demanded to convert their convertible debentures and a total of 2,979,923 shares were issued to the demanded Holders.

The embedded conversion feature of the above convertible notes was determined to be beneficial conversion feature that requires recognition within equity on the commitment date. The BCF was measured the intrinsic values for convertible notes on the commitment dates, which are the dates that the agreements were signed with the investors. The Company’s convertible notes both have stated redemption dates (maturity dates), which are 12 months from the issuance dates, the BCF values will be accreted from issuance date to the conversion date or the stated maturity date, whichever is earlier. The accretion calculation is based on effective interest rate method consistent with the ordinary debt instruments.

Net carrying amount of the liability component Convertible Notes dated as of September 30, 2021 was as follows:

	<u>Principal outstanding</u>	<u>Discount on debt</u>	<u>Net carrying value</u>
Convertible Notes - short-term	\$ 4,123,900	(1,300,536)	\$ 2,823,364

Net carrying amount of the equity component of the Convertible Notes as of September 30, 2021 was as follows:

	<u>Amount allocated to conversion option</u>	<u>Issuance cost</u>	<u>Equity component, net</u>
Convertible Notes – equity portion	\$ 1,291,892	8,644	\$ 1,300,536

## NOTE 17 – STOCK-BASED COMPENSATION, OPTIONS AND WARRANTS

### Stock-based compensation to third parties

During the fiscal year ended September 30, 2021, the Company issued a total of 550,000 ordinary shares to third parties for their software development, marketing and promoting services provided to the Company’s subsidiary xSigma Corporation and xSigma Collectibles Limited. The Company accounts for share-based payment exchanged for services at the estimated grant date fair value. The shares had an estimated fair value of \$3,149,000 which is measured based on their fair market value on the date of grant. For the fiscal year ended September 30, 2021, the Company recognized \$1,257,989 for the compensation cost, and \$787,880 of which was capitalized for Defi Exchange and xSigma Trading development.

### Stock Option

On April 5, 2021, the Company entered into a Consulting Agreement with a third-party consultant for her marketing and promoting services provided to xSigma Corporation. Pursuant to the Consulting Agreement, the Company issued 250,000 stock options, of which 50,000 options are exercisable upon execution of the Consulting Agreement and the 200,000 stock options shall vest in four equal installments on a quarterly basis (50,000 shares every three months). The Company estimates the fair value of the share-based option awards on the date of grant using the Black-Scholes option-pricing model (the “Black-Scholes model”). Using the Black-Scholes model, the value of the award that is ultimately expected to vest is recognized over the requisite service period in the statement of operations. The Company attributes compensation to expense using the straight-line single option method for the options granted.

A summary of stock option activity for the year ended September 30, 2021, is presented below:

	Shares Underlying Options	Weighted Average Exercise Price	Remaining Contractual Term (Years)	Grant-Date Fair Value
Outstanding at October 1, 2020	—	\$ —	—	—
Granted	250,000	\$ 10	1	\$ 1,085,386
Exercised	—	\$ —	—	—
Forfeited	—	\$ —	—	—
Outstanding at September 30, 2021	250,000	\$ 10	0.5	\$ 1,085,386
Exercisable at September 30, 2021	100,000	\$ 10	0.5	\$ —

### Stock Warrants

In connection with the IPO on September 1, 2017, the Company issued warrants equal to seven percent (7%) of the shares issued, totaling 74,784 units to the placement agents. The warrants carry a term of five years, and shall not be exercisable for a period of six months from the closing of the IPO and shall be exercisable at \$5 per share. Management determined that these warrants are equity instruments because the warrants are both a) indexed to its own stock; and b) classified in stockholders' equity. The warrants were recorded at their fair value on the date of grant as a component of stockholders' equity. As of September 30, 2021, all warrants were exercised on cashless basis and 38,304 shares of Company's ordinary shares were issued to the placement agent.

On February 15, 2021, the "Company entered into a Consultancy Agreement (the "Agreement") with Dentoro Alliance LP, a company incorporated in the Republic of Ireland (the "Consultant"). Pursuant to the Agreement, the Consultant agreed to provide marketing and software platform development services for the business development of xSigma Corporation, a subsidiary of the Company ("xSigma Corporation"), including website development, protocol development and implementation, social media and community management, content creation and public relations management. In exchange for the Consultant's services, the Company agreed to pay the Consultant initial compensation and performance earn-out. The initial compensation includes 250,000 ordinary shares of the Company which were issued upon execution of the Agreement, and warrants to purchase a total of 2,500,000 ordinary shares, which include (i) warrants to purchase 400,000 ordinary shares, exercisable at \$1.00 per share only when Company's closing bid price is at least \$2.00 for ten consecutive trading days, (ii) warrants to purchase 1,000,000 ordinary shares, exercisable at \$1.50 per share only when Company's closing bid price is above \$2.50 for seven consecutive trading days, (iii) warrants to purchase 500,000 ordinary shares, exercisable at \$2.00 per share only when Company's closing bid price is at least \$3.50 for seven consecutive trading days, (iv) Warrants to purchase 600,000 ordinary shares, exercisable at \$2.50 per share, only when Company's closing bid price is at least \$4.25 for seven consecutive trading days. All the warrants will expire nine months after issuance and may be permitted for cash or cashless exercise at Company's option pursuant to a definitive warrant agreement. The performance earn-out includes 1,000,000 ordinary shares of the Company if xSigma Corporation generates \$2,500,000 or more in audited operating net income in any fiscal year of xSigma Corporation (the "Milestone Event"). This performance earn-out precludes the Consultant from earning any additional share based on the Milestone Event. As of September 30, 2021, the Consultant is entitled to all milestone warrants with an estimated fair value of \$9,021,000, and no warrants were exercised by the Consultant during the fiscal year ended September 30, 2021. The performance earn-out shares were not accrued during the fiscal year 2021 as the performance condition was not achieved and it is not probable the performance condition will be achieved.

To evaluate the fair value of the warrants, a Monte Carlo simulation analysis was performed to calculate the fair value of the committed warrants. The Company's share price was simulated under a risk-neutral framework using Geometric Brownian Motion ("GBM"). The daily share price was simulated from the valuation date through to the latest expiry date (Tranche 4, February 15, 2023), the key assumptions applied in the model are as follows:

- Risk Free Rate: A risk-free rate of 0.20% was determined for a two-year term from a zero-coupon curve based on US Dollar Deposit and Swap rates as at February 15, 2021.
- Share Price: The ZK share price data was obtained from Thomson Reuters. A common share price of \$.30 was used based on the closing share price as at February 12, 2021 (the last trading day prior to the Valuation Date).
- Dividend Yield: Management does not expect dividends to be distributed during the term of the Warrants. Therefore, a zero-dividend yield was assigned in the model over the term of the Warrants.
- Volatility: A volatility estimate of 80% was used based on ZK's observed historic volatility over the prior 2.0-years.

As of September 30, 2021, the Company had outstanding 4,774,642 warrants issued in connection with the consulting arrangement and stock offering. The following is a summary of the change in outstanding warrants during the fiscal year ended September 30, 2021:

	Shares Underlying Options/Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at October 1, 2020	74,784	\$ 5	
Issued	5,091,540	\$ 3.03	5
Exercised	(391,682)	\$ 4.39	—
Forfeited	—	\$ —	—
Outstanding at September 30, 2021	4,774,642	\$ 2.87	4.7
Exercisable at September 30, 2021	4,774,642	\$ 2.87	4.7

## NOTE 18 – STOCKHOLDERS’ EQUITY

### Share Issuances

Ordinary shares issued for stock offerings

On December 23, 2020, ZK entered into Securities Purchase Agreement with certain unaffiliated investors identified therein (each an “Investor”, and collectively “Investors”), to offer an aggregate of 1,785,000 Company’s ordinary shares (the “Securities”), with no par value, at \$1.40 per ordinary share, for a total purchase price of \$2,499,000 in principle (the “Purchase Price”). The transaction was closed on January 8, 2021 and the full Purchase Price was received by the Company and 1,784,992 shares of Company’s ordinary shares were issued to Investors.

On February 22, 2021, ZK entered into Securities Purchase Agreement with certain unaffiliated investors identified therein (each an “Investor”, and collectively “Investors”), to offer an aggregate of 1,295,775 Company’s units, each consisting of one ordinary share (the “Securities”), no par value (the “Ordinary Share”), and two registered warrants, each to purchase one Ordinary Share with exercise price of \$4.00 (the “First Registered Warrants”) and \$4.50 (the “Second Registered Warrants”, collectively the “Warrants”) (together the Securities with the Warrants, the “Units”), at a unit price of \$3.55, for a total purchase price of up to \$4,600,001 (the “Purchase Price”). The transaction was closed on April 29, 2021 and the full Purchase Price was received by the Company and 1,295,770 shares of Company’s ordinary shares were issued to Investors. As of September 30, 2021, 316,898 warrants were exercised and 316,898 shares of Company’s ordinary shares were issued to Investors.

On March 22, 2021, ZK entered into Securities Purchase Agreement with certain unaffiliated investors identified therein (each an “Investor”, and collectively “Investors”), to offer an aggregate of 4,000,000 ordinary shares (the “Shares”), with no par value, of the Company (the “Ordinary Shares”), at a per share purchase price of \$4.50, for a total purchase price of up to \$18,000,000 (the “Purchase Price”). The transaction was closed on April 29, 2021 and the full Purchase Price was received by the Company and 4,000,000 shares of Company’s ordinary shares were issued to Investors.

During the fiscal year ended September 30, 2021, the Company issued a total of 550,000 ordinary shares to third parties for their software development, marketing and promoting services provided to the Company’s subsidiary xSigma Corporation and xSigma Collectibles Limited. The Company accounts for share-based payment exchanged for services at the estimated grant date fair value.

During the fiscal year ended September 30, 2021, the Company issued a total of 4,374,176 ordinary shares for the conversion of convertible notes by the holders, details are shown in Note 16.

### Statutory surplus reserves

Pursuant to Chinese Company law applicable to foreign investment companies, the Company’s PRC subsidiaries are required to maintain statutory surplus reserves. The statutory surplus reserves are to be appropriated from net income after taxes, and should be at least 10% of the after tax net income determined in accordance with accounting principles and relevant financial regulations applicable to PRC enterprises (“PRC GAAP”). The Company has an option of not appropriating the statutory surplus reserve after the statutory surplus reserve is equal to 50% of the subsidiary’s registered capital. Statutory surplus reserves are recorded as a component of shareholders’ equity. The statutory surplus reserve as of September 30, 2021 is \$2,914,602.

Wenzhou Weijia has not commenced operation since inception. No appropriation to the statutory surplus reserves.

Zhejiang Zhengkang recorded a net loss for the years ended September 30, 2021 and, 2020, so no appropriation to the statutory surplus reserves and staff welfare and bonus fund was made. Wenzhou Zhengfeng appropriated \$9,903 to the statutory surplus reserves for the year ended September 30, 2021.

Wenzhou Zhengfeng recorded a net loss for the years ended September 30, 2020, so no appropriation to the statutory surplus reserves and staff welfare and bonus fund was made.

Dividends declared by the Company's PRC subsidiaries are based on the distributable profits as reported in their statutory financial statements reported in accordance with PRC GAAP, which differ from the results of operations reflected in the consolidated financial statements prepared in accordance with US GAAP. The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its PRC subsidiaries. As of September 30, 2021, the Company has no dividend payable.

Under PRC laws and regulations, statutory surplus reserves are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company, and are not distributable other than upon liquidation. The reserves are not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor are they allowed for distribution except under liquidation. Amounts restricted include the PRC subsidiaries' paid-in capital and statutory surplus reserves of the Company's PRC subsidiaries totaling \$7,208,369 as of September 30, 2021 and \$7,198,466 as of September 30, 2020.

#### Non-controlling interests

Non-controlling interests represent the interest of non-controlling shareholders in Zhejiang Zhengkang based on their proportionate interests in the equity of that company adjusted for its proportionate share of income or losses from operations. On September 29, 2015, Wenzhou Weijia acquired 99% equity percentage of Zhejiang Zhengkang from 5 individual shareholders: HUANG Jian Cong, WANG Ming Jie, WANG Guo Lin, WANG Jian Di and WANG Yang Ming. After that, Zhejiang Zhengkang's equity interest is 99% held by Wenzhou Weijia and 1% held by HUANG Jian Cong as of the year end. The non-controlling interest in Zhejiang Zhengkang was 1% as of September 30, 2021 and 2019. The non-controlling interest in ZK Uganda was 20% as of September 30, 2021. The non-controlling interest in xSigma Corporation was 49% as of September 30, 2021.

#### NOTE 19 – SEGMENT REPORTING

ASC 280, "Segment Reporting", establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for details on the Company's business segments. The Company uses the "management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company's reportable segments. Management, including the chief operating decision maker, reviews operation results by the revenue of different products. Based on management's assessment, the Company has determined that it has one operating segment as defined by ASC 280.

For the years ended September 30, 2021 and 2020, revenue and assets within PRC contributed over 90% of the Company's total revenue and assets.

#### NOTE 20 – INCOME TAXES

	As of September 30,		
	2021	2020	2019
Deferred tax assets:			
Bad debt allowance recorded for accounts receivable	\$ 333,280	\$ 303,056	\$ 289,756
Inventory provision	16,952	16,087	—
Net operating loss carry-forward	690,882	539,354	159,219
Less: valuation allowance	(687,654)	(133,885)	(159,219)
Total	<u>\$ 353,460</u>	<u>\$ 724,612</u>	<u>\$ 289,756</u>

Deferred income taxes reflect the net effects of temporary difference between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. The Company's deferred tax assets as of September 30, 2021, 2020 and 2019 were \$353,460, \$724,612, and \$289,756, respectively, which were mainly derived from the temporary difference from provision of doubtful accounts and net operating loss carry forward of Wenzhou Zhengfeng with effective period from October 01, 2018 to September 30, 2023. The Company evaluated the likelihood of the realization of deferred tax assets and reduces the carrying amount of the deferred tax assets by a valuation allowance to the extent it believes a portion will not be realized.

Income taxes for the years ended September 30, 2021 and 2020 are attributed to the Company's continuing operations in China and consisted of:

	For the year ended September 30,		
	2021	2020	2019
Current	\$ (958,210)	\$ (1,021,565)	\$ 250,186
Deferred	406,064	(406,637)	(1,958)
Total	\$ (552,146)	\$ (1,428,202)	\$ 248,228

Per the consolidated statements of operations and comprehensive income, the income tax expenses for the Company can be reconciled to the income before income taxes for the years ended September 30, 2021 and 2020 as follows:

	For the year ended September 30,		
	2021	2020	2019
Income before taxes excluded the amounts of loss incurring entities	\$ —	\$ —	8,979,640
PRC EIT tax rates	15 %	15 %	15 %
Tax at the PRC EIT tax rates	—	—	1,346,946
Tax effect of 75% (50% for 2018 and 2017) R&D expenses deduction	—	—	(163,357)
Tax effect of deferred tax recognized	406,064	(406,637)	(1,958)
Tax effect of non-deductible expenses	—	—	18,307
Change in unrecognized tax benefits	(958,210)	(1,021,565)	(951,710)
Income tax expense (recovery)	\$ (552,146)	\$ (1,428,202)	248,228

Under the Law of the People's Republic of China on Enterprise Income Tax ("New EIT Law"), which was effective from January 1, 2008, both domestically- owned enterprises and foreign-invested enterprises are subject to a uniform tax rate of 25%.

Zhejiang Zhengkang was entitled High and New Technology Enterprise ("HNTE") and enjoyed preferential tax rate of 15% for a three-year validity period from April 16, 2009. And the HNTE certificate was renewed on October 29, 2012, September 17, 2015 and September 17, 2018 all with a three-year validity period respectively. Thus, Zhejiang Zhengkang is eligible for a 15% preferential tax rate from April 16, 2009 to September 16, 2021.

ZK International and xSigma Corporation is not subject to income taxes under the current laws of BVI. ZK Pipe was registered in Hong Kong and is subject to corporate income tax at 16.5% if revenue is generated in Hong Kong. Wenzhou Zhengfeng and Wenzhou Weijia were both registered in the PRC and have applicable EIT rate of 25%. ZK Uganda was registered in the Republic of Uganda and is subject to corporate income tax at 80% if revenue is generated in Uganda.

Due to the Company's status as a public company, the Company is able to negotiate with local PRC taxing authorities a reduction to certain amounts that such authorities may believe are due and a reduction to any interest or penalties thereon. To the extent our Company is able to negotiate such amounts, national-level taxing authorities may take the position that localities are without power to reduce such liabilities, and such PRC taxing authorities may attempt to collect the unpaid taxes. The PRC tax law provides statute of limitations of 3 years to collect unpaid taxes. The Company recognizes the portion of unrecognized tax benefit that is beyond 3 years as reduction of its tax liabilities due to the fact that the statute of limitations for the relevant taxing authorities to examine and challenge the tax position has expired.



The changes in unrecognized tax benefits are as follows:

	For the year ended September 30,		
	2021	2020	2019
Balance at beginning period	\$ 3,188,615	\$ 4,176,537	\$ 4,098,783
Addition for tax positions of the current year	(37,407)	(154,041)	993,194
Lapse of statute of limitations	(967,698)	(1,054,163)	(915,440)
Effect of exchange rate changes	171,322	220,281	—
Balance at ending period	<u>\$ 2,354,832</u>	<u>\$ 3,188,615</u>	<u>\$ 4,176,537</u>

As of September 30, 2021, the Company had unrecognized tax benefits of \$2,354,832 and such balance was included in “income tax payable” account. For the fiscal years 2021, 2020 and 2019, no tax authority initiated tax examination against the Company and the Company was issued *Certificate of No Tax Arrears* on December 9, 2020 by local tax authority which indicates the Company has fully paid income taxes for its tax returns since January 01, 2017. The reasonable possible change on the Company’s unrecognized tax benefits in the next 12 months ranges from RMB nil to RMB 9,360,974.

#### NOTE 21 - SUBSEQUENT EVENTS

On October 20, 2021 the Company announced that the Company’s management has proposed to the Company’s Board of Directors regarding a potential distribution upon receiving returns from its prior investments of up to 25%. Any such distribution will be subject to the review and approval of the Board of Directors. The Company plans to review this strategy on an ongoing basis and may amend or forgo at any time in light of the Company’s then current financial position, profitability, cash flow, debt, legal requirements and other factors considered relevant. As such, no assurances can be made that any future distribution will be made.

On December 27, 2021, xSigma Corporation entered into a second amendment to the Subscription Agreement with CG Malta (the “Second Amendment”). Pursuant to the Second Amendment, the subscription to the ordinary shares in CG Malta for a total purchase price of US\$25 million will be subject to signing of a separate subscription agreement no later than April 30, 2022, of which US\$5 million shall be completed no later than February 15, 2022 and another US\$5 million shall be completed no later than March 15, 2022.

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through January 28, 2022, the date the financial statements were available to be issued. No events require adjustment to or disclosure in the consolidated financial statements.

**Certification by the Principal Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jiancong Huang, Chief Executive Officer of ZK International Group Co., Ltd. (the “Company”), certify that:

1. I have reviewed this amendment no.1 to the annual report on Form 20-F of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the Company and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the amendment no.1 to the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Dated June 30, 2022

By: /s/ Jiancong Huang  
Name: Jiancong Huang  
Title: Chief Executive Officer

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**Certification by the Principal Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Shaochai Yang, Chief Financial Officer of ZK International Group Co., Ltd. (the "Company"), certify that:

1. I have reviewed this amendment no.1 to the annual report on Form 20-F of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the Company and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the amendment no.1 to the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Dated June 30, 2022

By: /s/ Shaochai Yang  
Name: Shaochai Yang  
Title: Chief Financial Officer

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**Certification by the Principal Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Jiancong Huang, Chief Executive Officer of ZK International Group Co., Ltd. (the “Company”), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- a. the Company’s amendment no.1 to the annual report on Form 20-F for the fiscal year ended September 30, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- b. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Dated June 30, 2022

By: /s/ Jiancong Huang  
Name: Jiancong Huang  
Title: Chief Executive Officer

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**Certification by the Principal Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Shaochai Yang, Chief Financial Officer of ZK International Group Co., Ltd. (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- a. the Company's amendment no.1 to the annual report on Form 20-F for the fiscal year ended September 30, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- b. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Dated June 30, 2022

By: /s/ Shaochai Yang

Name: Shaochai Yang

Title: Chief Financial Officer

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