

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

(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 For the fiscal year ended September 30, 2023
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.

正康国际集团有限公司

(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

zjk@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: 32,992,740 ordinary shares as of September 30, 2023.

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 whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

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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 ZK International Group Co., Ltd., a British Virgin Islands company limited by ordinary shares (“ZK International” when individually referenced) and, in the context of describing our operations and consolidated financial information, to ZK International and:

- 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 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;
- Hongyun (Wenzhou) Global Trading Limited. (also referred to as 宏蕴 (温州) 国际贸易有限公司 in China), a PRC company (“Hongyun” when individually referenced), 100% of its equity interest is held by Wenzhou Weijia;
- Wenzhou Suona Piping Limited. (also referred to as 温州索纳管业有限公司 in China), a PRC company (“Suona” 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, 2023, 2022 and 2021 were US \$1.00 for RMB 7.2960, RMB 7.1135, and RMB 6.4434, respectively. The average exchange rates for the years ended September 30, 2023, 2022 and 2021 were US \$1.00 for RMB 7.0533, RMB 6.5532, and RMB 6.5072, 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

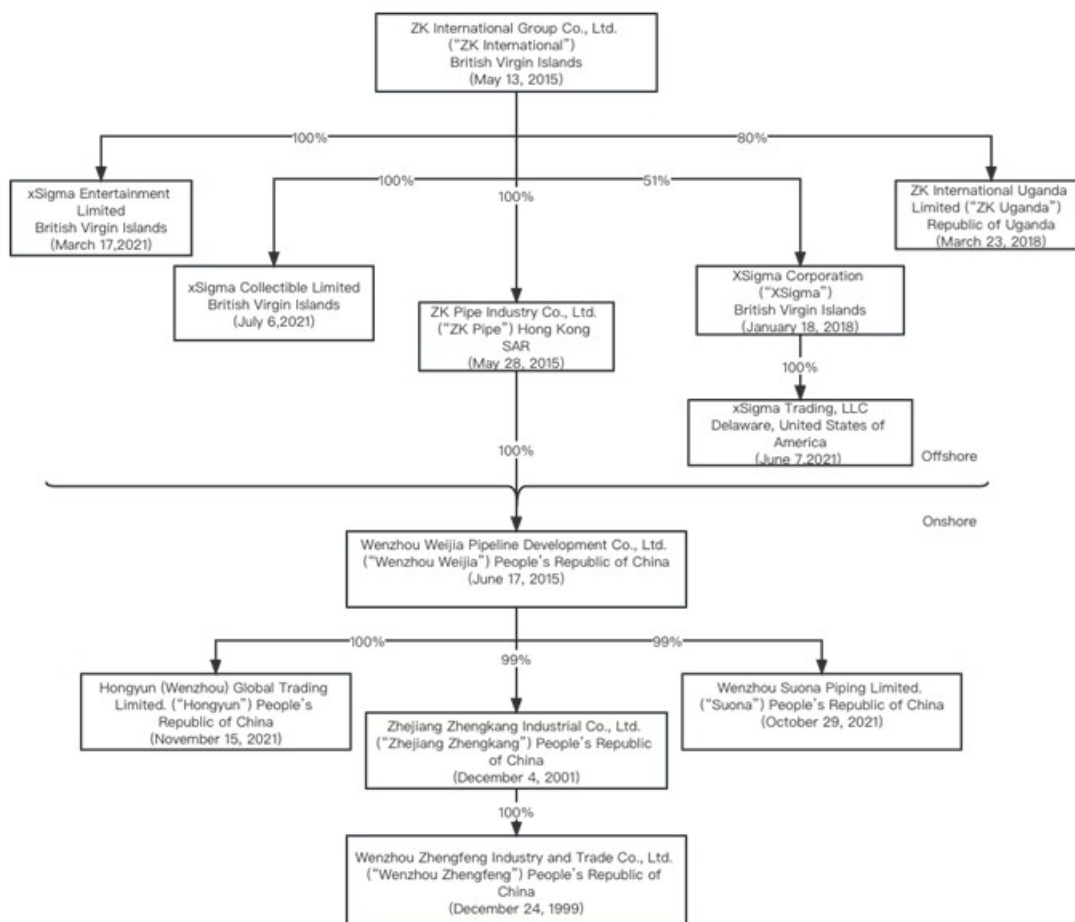
Implications of the Holding Foreign Companies Accountable Act (“HFCAA”)

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, and on December 29, 2022, a legislation entitled “Consolidated Appropriations Act, 2023” (the “Consolidated Appropriations Act”) was signed into law by President Biden, which contained, among other things, an identical provision to the Accelerating Holding Foreign Companies Accountable Act and amended the HFCA Act by requiring the SEC to prohibit an issuer’s securities from trading on any U.S. stock exchanges if its auditor is not subject to PCAOB inspections for two consecutive years instead of three, thus reducing the time period for triggering the prohibition on trading. On August 26, 2022, the PCAOB announced that it had signed a Statement of Protocol (the “SOP”) with the China Securities Regulatory Commission and the Ministry of Finance of China. The SOP, together with two protocol agreements governing inspections and investigations (together, the “SOP Agreement”), establishes a specific, accountable framework to make possible complete inspections and investigations by the PCAOB of audit firms based in mainland China and Hong Kong, as required under U.S. law. On December 15, 2022, the PCAOB announced that it was able to secure complete access to inspect and investigate PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong completely in 2022. The PCAOB Board vacated its previous 2021 determinations that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong. However, whether the PCAOB will continue to be able to satisfactorily conduct inspections of PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong is subject to uncertainties and depends on a number of factors out of our and our auditor’s control.

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, Fortune CPA, Inc., is headquartered in Orange, California, and is subject to inspection by the PCAOB on a regular basis. Our previous auditor, ZH CPA, LLC, is headquartered in Denver, Colorado, and is subject to inspection by the PCAOB on a regular basis. However, recent developments with respect to audits of China-based companies create uncertainty about the ability of Fortune CPA, Inc. or 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, and ultimately result in a determination by a securities exchange to delist the Company’s securities. 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 two consecutive years. 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

Below is a chart illustrating our current corporate structure:



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 39 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 20.

The PRC subsidiaries, Wenzhou Weijia, Wenzhou Zhengfeng, and Zhejiang 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 subsidiaries 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 “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 31, “— 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 32, and “— The approval, filing or other requirements of the China Securities Regulatory Commission or other PRC government authorities may be required in connection with any future offering, and, if required, we cannot predict whether we will be able to meet such requirements.” on page 33.

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 this Annual Report.

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 China Securities Regulatory Commission (CSRC), Cyberspace Administration of China (“CAC”) or any other governmental agency. On November 14, 2021, the CAC published the Security Administration Draft, which provides that data processing operators engaging in data processing activities that affect or may affect national security must be subject to network data security review by the relevant Cyberspace Administration of the PRC. According to the Security Administration Draft, data processing operators who possess personal data of at least one million users or collect data that affects or may affect national security must be subject to network data security review by the relevant Cyberspace Administration of the PRC. The deadline for public comments on the Security Administration Draft was December 13, 2021. As of the date of this annual report, we and our PRC subsidiaries 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 32.

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 31.

Risks related to the approval, filing or other requirements of the China Securities Regulatory Commission or other PRC government authorities may be required in connection with any future offering, and, if required, we cannot predict whether we will be able to meet such requirements.

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 February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, or the Trial Measures effective from March 31, 2023, which regulates both direct and indirect offering and listing of PRC domestic enterprises’ securities by adopting a filing-based regulatory regime, requiring PRC domestic companies seeking to directly or indirectly offer securities and list in oversea markets to file with the CSRC. See “Item 3.D. Risk Factors — Risks Related to Doing Business in China — the approval, filing or other requirements of the China Securities Regulatory Commission or other PRC government authorities may be required in connection with any future offering, and, if required, we cannot predict whether we will be able to meet such requirements” on page 33.

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 34.

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 34.

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 24.

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 25.

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 26.

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 27.

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 28.

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 19 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 40.

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 18.

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 19.

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 20.

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 25.

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 27.

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 28.

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 29.

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 30.

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 31.

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 HFCA 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, and on December 29, 2022, a legislation entitled “Consolidated Appropriations Act, 2023” (the “Consolidated Appropriations Act”) was signed into law by President Biden, which contained, among other things, an identical provision to the Accelerating Holding Foreign Companies Accountable Act and amended the HFCA Act by requiring the SEC to prohibit an issuer’s securities from trading on any U.S. stock exchanges if its auditor is not subject to PCAOB inspections for two consecutive years instead of three, thus reducing the time period for triggering the prohibition on trading. On August 26, 2022, the PCAOB announced that it had signed a Statement of Protocol (the “SOP”) with the China Securities Regulatory Commission and the Ministry of Finance of China. The SOP, together with two protocol agreements governing inspections and investigations (together, the “SOP Agreement”), establishes a specific, accountable framework to make possible complete inspections and investigations by the PCAOB of audit firms based in mainland China and Hong Kong, as required under U.S. law. On December 15, 2022, the PCAOB announced that it was able to secure complete access to inspect and investigate PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong completely in 2022. The PCAOB Board vacated its previous 2021 determinations that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong. However, whether the PCAOB will continue to be able to satisfactorily conduct inspections of PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong is subject to uncertainties and depends on a number of factors out of our and our auditor’s control.

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, Fortune CPA, Inc., is headquartered in Orange, California, and is subject to inspection by the PCAOB on a regular basis. Our previous auditor, ZH CPA, LLC, is a U.S.-based accounting firm that is registered with the PCAOB and can be inspected by the PCAOB. 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, and ultimately result in a determination by a securities exchange to delist the Company’s securities. 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 two consecutive years. 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 40. ***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 42.

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 44.

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 45.

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, to operate the business of the PRC subsidiaries.

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 “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”.

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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.

Company	License/Permission/Approval	Issuing Authority	Validity
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
Hongyun	Business License	Wenzhou Municipal Administration for Market Regulation	Long-term
Suona	Business License	Wenzhou Municipal Administration for Market Regulation	Long-term

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, or the Trial Measures, effective from March 31, 2023, which regulates both direct and indirect offering and listing of PRC domestic enterprises' securities by adopting a filing-based regulatory regime, requiring PRC domestic companies seeking to directly or indirectly offer securities and list in overseas markets to file with the CSRC. If we are determined by CSRC that we need to complete the filing procedures for our future offshore offerings, or the CSRC, CAC or other regulatory agencies later promulgate and other new rules or explanations requiring us to complete filing procedures or obtain their approvals for our future offshore offerings, we may be unable to complete such filing procedures or obtain such approvals in a timely manner, or at all, and such filings or approvals may be rescinded even if completed or obtained. Any such circumstance could significantly limit or completely hinder our ability to continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless. In addition, implementation of industry-wide regulations directly targeting our operations could cause the value of our securities to significantly decline. Therefore, investors of our company and our business face potential uncertainty from actions taken by the PRC government affecting our business. For more details, see "Item 3.D Risk Factors – Risks Related to Doing Business in China – The approval, filing or other requirements of the China Securities Regulatory Commission or other PRC government authorities may be required in connection with any future offering, and, if required, we cannot predict whether we will be able to meet such requirement".

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.

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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 extent, 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 subsidiaries).

Increasing the registered capital in a PRC subsidiaries 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, 2023, 2022 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, 2022, ZK International transferred a total of \$4,139,100 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.

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".

3.A. [reserved]

3.B. Capitalization and Indebtedness

Not applicable for annual reports on Form 20-F.

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

Not applicable for annual reports on Form 20-F.

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.

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 subsidiaries 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 subsidiaries 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 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.

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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.

On November 14, 2021, the CAC published the Security Administration Draft, which provides that data processing operators engaging in data processing activities that affect or may affect national security must be subject to network data security review by the relevant Cyberspace Administration of the PRC. According to the Security Administration Draft, data processing operators who possess personal data of at least one million users or collect data that affects or may affect national security must be subject to network data security review by the relevant Cyberspace Administration of the PRC. The deadline for public comments on the Security Administration Draft was December 13, 2021.

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, filing or other requirements of the China Securities Regulatory Commission or other PRC government authorities may be required in connection with any future offering, and, if required, we cannot predict whether we will be able to meet such requirements.

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.

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On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, or the Trial Measures, effective on March 31, 2023, which regulates both direct and indirect offering and listing of PRC domestic enterprises' securities by adopting a filing-based regulatory regime. Indirect listing of a PRC domestic enterprise refers to overseas offering and listing by a PRC domestic enterprise in the name of an overseas incorporated entity, whereas such enterprise's major business operations are located domestically and such offering and listing is based on equity, assets, gains or other similar interests of such PRC domestic enterprise, and if an issuer meets all of the following criteria, any offering and listing conducted by such issuer will be deemed as an indirect offering and listing by PRC domestic enterprises: (i) 50% or more of the issuer's operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent accounting year is accounted for by PRC domestic enterprises; (ii) the main parts of the issuer's business activities are conducted in PRC, or its main places of business are located in PRC, or the senior managers in charge of its business operation and management are mostly PRC citizens or domiciled in PRC. And a PRC domestic enterprises that offer securities and list in overseas markets, either in direct or indirect means, shall fulfill the filing procedure with the CSRC and report relevant information. Initial public offerings or listings in overseas markets shall be filed within 3 business days after the relevant application is submitted, while subsequent securities offerings of an issuer in the same overseas market where it has previously offered and listed securities shall be filed within 3 business days after the offering is completed. The Trial Measures also requires, either after the filing by the issuer and before the completion of offering and listing, or after the overseas offering and listing, subsequent report to the CSRC on material events, such as material change in principal business or change of control. No overseas offering and listing shall be made under any of the following circumstances: (1) where such securities offering and listing is explicitly prohibited by provisions in laws, administrative regulations and relevant state rules; (2) where the intended securities offering and listing may endanger national security as reviewed and determined by competent authorities; (3) where the PRC domestic enterprise intending to make the securities offering and listing, or its controlling shareholders and the actual controller, have committed crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years;(4) where the PRC domestic enterprise intending to make the securities offering and listing is suspected of committing crimes or major violation of laws and regulations, and is under investigation according to law, and no conclusion has yet been made thereof; and (5) where there are material ownership disputes over equity held by the PRC domestic enterprise's controlling shareholder or by other shareholders that are controlled by the controlling shareholder and/or actual controller.

If we are determined by CSRC that we need to complete the filing procedures for our future offshore offerings, or the CSRC, CAC or other regulatory agencies later promulgate and other new rules or explanations requiring us to complete filing procedures or obtain their approvals for our future offshore offerings, we may be unable to complete such filing procedures or obtain such approvals in a timely manner, or at all, and such filings or approvals may be rescinded even if completed or obtained. Any such circumstance could significantly limit or completely hinder our ability to continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless. In addition, implementation of industry-wide regulations directly targeting our operations could cause the value of our securities to significantly decline. Therefore, investors of our company and our business face potential uncertainty from actions taken by the PRC government affecting our business.

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 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, 2023, 2022 and 2021, we had adjustment (loss)gain of \$(542,114), \$(5,504,385), and \$2,423,439, 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 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. During the fiscal year 2022, the Company experienced delays in the purchase of raw material from supplies and delivery of products to domestic customers in China on a timely basis as a consequence of travel restrictions. Although the situation has eased since mid-May 2022, the number of orders placed by the customers was affected, as the business of those customers was negatively impacted. Meanwhile, the prices of the raw materials have also risen significantly since October 2021, especially the nickel which is an important component of stainless steel. Our management believes that the above negative impacts of the COVID-19 pandemic had a negative impact on our overall business operations and financial results for the fiscal year 2022. For the fiscal year 2023, many of the restrictive measures previously adopted by the PRC governments at various levels to control the spread of the COVID-19 virus have been revoked or replaced with more flexible measures since December 2022. The revocation or replacement of the restrictive measures to contain the COVID-19 pandemic had a positive impact on our normal operations.

The extent to which the COVID-19 outbreak impacts our financial condition and results of operations for the full year of 2024 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 the we have paid all taxes to date, PRC taxing authorities may take the position that the 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.”).

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We recorded an income tax liability of \$669, \$817,059 and \$2,354,832 for the fiscal years ended September 30, 2023, 2022 and 2021, 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 cannot guarantee whether 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 particularly 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 had \$17,916,392 and \$16,257,820 in outstanding bank loans as of September 30, 2023 and 2022. 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.

Our operating activities used \$1,905,912, \$2,072,220 and \$3,479,064 in net cash during the fiscal year ended September 30, 2023, 2022 and 2021, respectively. 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 two vendors during the fiscal year ended September 30, 2023, who collectively accounted for 52.21% of total purchases. We had two vendors during the fiscal year ended September 30, 2022, who collectively accounted for 64.31% of total purchases. We had three major vendors during the fiscal year ended September 30, 2021, who collectively accounted for 72.52% of total purchases. 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;

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- 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.

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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.

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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 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 years ended September 30, 2023, 2022 and 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.

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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;

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- 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 the future. 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 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 two consecutive years. 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.

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On June 22, 2021, the U.S. Senate passed Accelerating Holding Foreign Companies Accountable Act and on December 29, 2022, a legislation entitled “Consolidated Appropriations Act, 2023” (the “Consolidated Appropriations Act”) was signed into law by President Biden, which contained, among other things, an identical provision to the Accelerating Holding Foreign Companies Accountable Act and amended the HFCA Act by requiring the SEC to prohibit an issuer’s securities from trading on any U.S. stock exchanges if its auditor is not subject to PCAOB inspections for two consecutive years instead of three, thus reducing the time period for triggering the prohibition on trading.

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.

On August 26, 2022, the PCAOB announced that it had signed a Statement of Protocol (the “SOP”) with the China Securities Regulatory Commission and the Ministry of Finance of China. The SOP, together with two protocol agreements governing inspections and investigations (together, the “SOP Agreement”), establishes a specific, accountable framework to make possible complete inspections and investigations by the PCAOB of audit firms based in mainland China and Hong Kong, as required under U.S. law.

On December 15, 2022, the PCAOB announced that it was able to secure complete access to inspect and investigate PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong completely in 2022. The PCAOB Board vacated its previous 2021 determinations that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong. However, whether the PCAOB will continue to be able to satisfactorily conduct inspections of PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong is subject to uncertainties and depends on a number of factors out of our and our auditor’s control. The PCAOB continues to demand complete access in mainland China and Hong Kong moving forward and is making plans to resume regular inspections in early 2023 and beyond, as well as to continue pursuing ongoing investigations and initiate new investigations as needed. The PCAOB has also indicated that it will act immediately to consider the need to issue new determinations with the HFCAA if needed.

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, Fortune CPA, Inc., is headquartered in Orange, California, and is subject to inspection by the PCAOB on a regular basis. Our previous 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.

However, recent developments with respect to audits of China-based companies create uncertainty about the ability of Fortune CPA, Inc. or 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, and ultimately result in a determination by a securities exchange to delist the Company’s securities. 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 the date of this annual report, our officers and/or directors beneficially own approximately 24% 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. During the fiscal year ended September 30, 2023, our ordinary shares have traded at a low of \$0.293 and a high of \$1.34 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;

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- 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

4.A. History and development of the company

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 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.

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ZK Pipe Industry Co., Ltd. (“ZK Pipe”) was incorporated on May 28, 2015 under the law of Hong Kong SAR. ZK Pipe is 40% owned by ZK International and 60% owned 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.

Hongyun (Wenzhou) Global Trading Limited. (“Hongyun”) was incorporated on November 15, 2021 in Wenzhou under the laws of the People’s Republic of China. The principal activities of Hongyun is trading of nickel materials.

Wenzhou Suona Piping Limited. (“Suona”) was incorporated on October 29, 2021 in Wenzhou under the laws of the People’s Republic of China and is a 99% owned subsidiary of Wenzhou Weijia. The principal activities of Suona is trading of nickel materials.

4.B.Business Overview

We primarily conduct our business through our subsidiary Zhejiang Zhengkang in China. 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

Settlement with CG Malta Holding Limited

xSigma Entertainment holds 15.73% ownership of CG Malta Holding Limited (“CG Malta”). On November 27, 2023, the Company and xSigma Entertainment entered into a settlement agreement with CG Malta, the shareholder who holds the remainder ownership of CG Malta (the “CG Malta Shareholder”), a subsidiary of CG Malta (“CG Malta Subsidiary”), and a third party (collectively, the “Parties”). Pursuant to the settlement agreement, the Parties agreed to release, acquit and discharge any and all actions, claims, rights, demands, and set-offs arising out of or connected with (i) a written shareholders agreement entered into by and among CG Malta, the CG Malta Shareholder and xSigma Entertainment in or about March 2021 for the purposes of, inter alia, regulating the CG Malta Shareholder and xSigma Entertainment’s relationship as shareholders of CG Malta, (ii) a written subscription for shares agreement entered into by and among CG Malta, the CG Malta Shareholder and xSigma Entertainment on or about April 4, 2021, pursuant to which, xSigma Entertainment agreed to subscribe for, and CG Malta agreed to issue and allot to xSigma Entertainment, additional shares in CG Malta on the terms and subject to the conditions contained therein; (iii) a dispute between the end of 2022 and beginning of 2023 between CG Malta, the CG Malta Shareholder, xSigma Entertainment and the Company relating to the financial position of CG Malta in connection with the dissolution and consequential winding-up of CG Malta (the “Dispute”); (iv) the underlying facts relating to the Dispute; (v) any other agreement between or act by the Parties or any of them; and (vi) any other matter arising out of or connected with the relationship between the Parties (collectively, the “Settlements”). In exchange for the Settlements, CG Malta Subsidiary transferred and assigned certain software to xSigma Entertainment on November 27, 2023 and the CG Malta Shareholder secured an independent third party investor to invest US\$5 million into the Company at preferential terms.

Private Placement

On November 27, 2023, the Company entered into a securities purchase agreement with an investor, pursuant to which the investor agreed to purchase and the Company agreed to issue and sell US\$5 million of ordinary shares of the Company (the “Private Placement”). The Private Placement shall be completed in three subscriptions with the initial subscription in the amount of US\$1.5 million (the “Initial Subscription Amount”) to be paid within three business days from the date of the securities purchase agreement (the “Initial Subscription Date”), the second subscription in the amount of not less than US\$2 million and up to \$3.5 million (the “Second Subscription Amount”) to be paid on or before the 60th day from the Initial Subscription Date (the “Second Subscription Date”), and the third subscription in the amount equal to \$5,000,000 minus the aggregate amount of the Initial Subscription Amount and Second Subscription Amount (the “Third Subscription Amount”) to be paid on or before the 60th day from the Second Subscription Date (the “Third Subscription Date”). The Company agreed to issue, upon receiving the Initial Subscription Amount, the Second Subscription Amount and the Third Subscription Date, such number of ordinary shares that equal the sum of (i) the Initial Subscription Amount divided by \$1.70, which is 185% of the higher of (x) the closing bid price as of the trading day immediately prior to the date of the securities purchase agreement (the “Initial Bid Price”) and (y) the average closing bid price during the five trading days immediately prior to the date of the securities purchase agreement, (ii) the Second Subscription Amount divided by 175% of the higher of (x) the Initial Bid Price, (y) the closing bid price as of the trading day immediately prior to the Second Subscription Date, and (z) the average closing bid price during the five trading days immediately prior to the Second Subscription Date, and (iii) the Third Subscription Amount divided by 165% of the higher of (x) the Initial Bid Price, (y) the closing bid price as of the trading day immediately prior to the Third Closing Date, and (z) the average closing bid price during the five trading days immediately prior to the Third Subscription Date. The Private Placement was exempted from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act” pursuant to Regulation S under the Securities Act.

The Private Placement was facilitated by Univest Securities, LLC. Univest Securities, LLC received a commission in the amount of US\$150,000.

On April 29, 2024, the Company issued 3,154,885 ordinary shares and closed the Private Placement upon receipt of the full subscription amount of the Private Placement. The Company plans to use the net proceeds from the Private Placement for working capital and general corporate purposes.

Change of Director

On June 13, 2024, Ms. Xuejie Lyu tendered her resignation as an Independent Director, Chair of the Audit Committee, Chair of the Compensation Committee, and a member of the Nomination Committee, the Governance and Human Resource Committee and the Enterprise Risk Oversight Committee of the Company. Ms. Lyu’s decision to resign did not arise or result from any disagreement with the Company.

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Effective on June 13, 2024, the Board of Directors appointed Hedong Xu to serve as an Independent Director, Chair of the Audit Committee, Chair of the Compensation Committee, and a member of the Nomination Committee, the Governance and Human Resource Committee and the Enterprise Risk Oversight Committee of the Company to fill in the vacancy created by Ms. Lyu's resignation until the Company's next general meeting of shareholders called for the election of directors and until his successors have been duly elected and qualified. See "Item 6. Directors, Senior Management And Employees".

Entry into a Material Agreement

On July 12, 2024, the Company entered into a securities purchase agreement (the "Securities Purchase Agreement") with Recruiter.Com Group, Inc. (NASDAQ: RCRT) (the "Target"), pursuant to which the Company agreed to purchase 2,000,000 shares of common stock of the Target at a price of US\$1.00 per share (the "Investment"). The Company has an option to purchase additional 2,000,000 shares at \$1.00 per share.

The Securities Purchase Agreement contains customary representations and warranties of the Company and the Target, indemnification obligations of the parties, and other obligations and rights of the parties. Additionally, the closing of the Investment is conditioned upon the consummation of certain matters, including but not limited to, the Target obtaining the approval of its majority stockholders of the issuance of shares and increase the number of authorized shares, and approval of The Nasdaq Stock Market LLC, if required, and the completion of due diligence by the Company, which shall be on or prior to the 30th day from the date of the Securities Purchase Agreement.

In addition, on July 12, 2024, the Company entered into a registration rights agreement (the "Registration Rights Agreement") with the Target such that the Target shall prepare and, as soon as practicable, but in no event later than 150 days after the Closing Date (as defined in the Securities Purchase Agreement), file with the SEC a registration statement on Form S-3 covering the resale of all of the Registrable Securities (as defined in the Registration Rights Agreement), provided that such registration statement shall include all of the Registrable Securities as of the date such registration statement is initially filed with the Commission; provided further that if Form S-3 is unavailable for such a registration of all the Registrable Securities, the Company shall use such other form as is required therein.

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

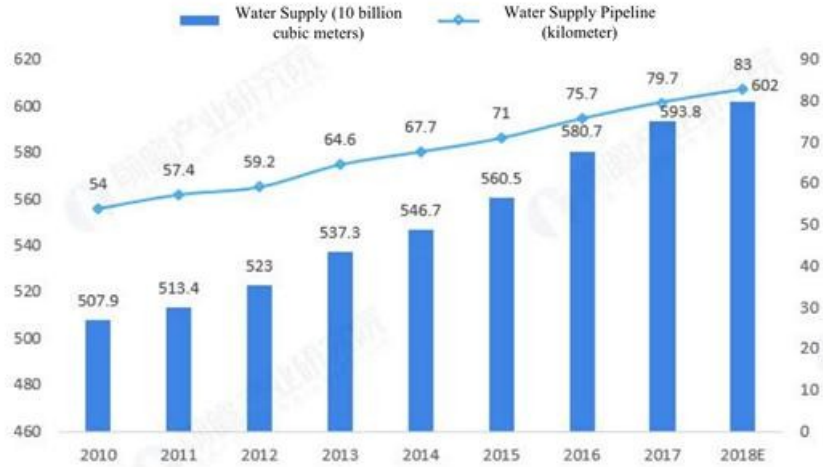
Like many other things, opportunities always come with challenges. There are both political and economic incentives in this field attracting investment from the government and private companies. As reported by Ministry of Environmental Protection (MEP), the quality of drinking water has significantly 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%.

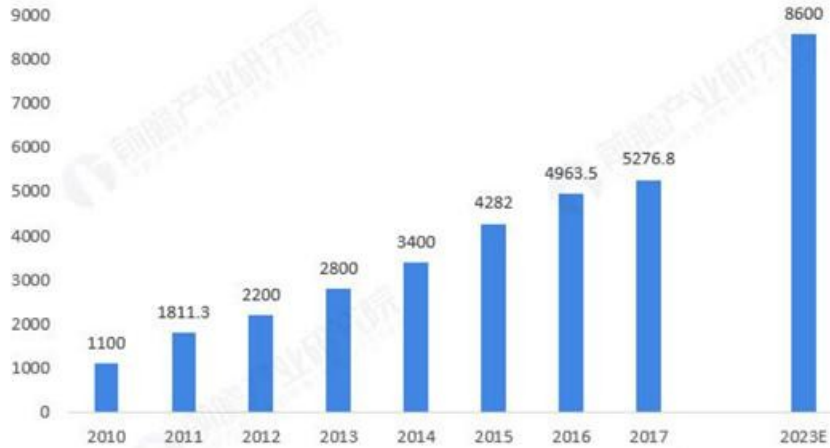
Water Supply and Water Supply Pipeline in China from 2010 to 2018 (10 billion cubic meters, kilometer)



Source: Ministry of Housing and Urban-Rural Development of the PRC and Qianzhan Industry Research Institute

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.

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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)

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.

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- 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 years ended September 30, 2022 and 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.

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 in the future.

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 in the future. 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.”

The above-mentioned 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.

During 2023 fiscal year, the Company evaluated the recoverability of the above-mentioned platforms, including Defi Exchange, xSigma Trading, and MaximNFT pursuant to ASC 360-10-35-21 and concluded that the carrying value of the three platforms may not be recoverable as it projects that the platform is likely to have continuing losses and it’s more likely than not this platform will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The Company wrote off the carrying value of the platform and recorded a loss of \$10,346,769.

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" many companies. 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, 2023, 2022 and 2021.

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 two vendors during the fiscal year ended September 30, 2023, who collectively accounted for 52.21% of total purchases. We had two vendors during the fiscal year ended September 30, 2022, who collectively accounted for 64.31% of total purchases. We had three major vendors during the fiscal year ended September 30, 2021, who collectively accounted for 72.52% of total purchases. 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. See "Item 3.D Risk Factors — Risks Related to Our Business and Industry — The loss of any of our key vendors could have a materially adverse effect on our results of operations."

Seasonality

We have in the past experienced, and expect in the future to continue to experience, limited seasonal fluctuations in our revenues and sales as a result of the holiday season, weather and customers' buying patterns. We recorded relatively lower revenue during Lunar New Year (normally in January or February) owing to fewer business activities in Mainland China. Besides, revenue in the summer months is relatively lower than in other periods throughout the year, as purchase orders and production level fell due to high temperature.

Raw Material Sourcing

We use various commercially available raw materials and components in our business, including carbon steel and stainless steel, which are key inputs in our manufacturing process. Our raw materials are sourced from multiple vendors and are not considered precious metals. Despite a volatile steel market and increased pricing pressure on stainless steel direct materials, we have employed strategic inventory purchases and negotiated fixed-price supply contracts to help mitigate the impact to our product cost and improve financial planning. 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" and "— Our business could be materially harmed by the ongoing coronavirus (COVID-19) pandemic".

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

Patent

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.	An automatic cutting machine for non-sharp steel pipes	Zhejiang Zhengkang	Invention Patent	202010026329N0	10/27/2020
26.	A helical tooth type pipe conveying and separating mechanism	Zhejiang Zhengkang	Invention Patent	2020112602144	08/09/2022
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.	A kind of pipe fitting processing equipment	Zhejiang Zhengkang	Utility Models Patent	2021203494687	11/30/2021
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
45.	A type of stainless steel pipe auto-cutting machine	Zhejiang Zhengkang	Invention Patent	ZL2020100263290	10/27/2020

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:




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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
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		11	34035737	2019.11.14-2029.11.13	Faucet, Pipe Tap, Water Distribution Equipment, Pipeline of Medical Equipment, Plumbing Pipe and Fitting, Water Drainage Equipment, Mixer Tap, Running Water Coordination Equipment
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




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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
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

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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	希哥玛	38	34035720	2019.7.21- 2029.7.20	Services for radio or television programmes, Communication service
31	Zhejiang Zhengkang	XSigma	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	Zhejiang Zhengkang		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	Zhejiang Zhengkang		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
35	Zhejiang Zhengkang	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	Zhejiang Zhengkang	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	Zhejiang Zhengkang	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	Zhejiang Zhengkang		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	Zhejiang Zhengkang		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

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40	Zhejiang Zhengkang		9	34026952	2019.11.28-2029.11.27	Signal Light, Movie Camera, Water Meter, Optical Product, Safety Helmet
41	Zhejiang Zhengkang	ZHENGKANG	9	34044703	2019.11.28-2029.11.27	Signal Light, Movie Camera, Water Meter, Optical Product, Safety Helmet
42	Zhejiang Zhengkang	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	Zhejiang Zhengkang		6	30 2020 240 957.5/06	2021 . 1 . 14-2031.1.13	Metal material
44	Zhejiang Zhengkang		9	34044684	2019.9.28-2029.9.27	Signal Light, Movie Camera, Water Meter, Optical Product, Safety Helmet

Regulations in the PRC

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

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 " 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 × maturity risk conversion factor × type risk conversion factor + " outstanding foreign currency denominated cross-border financing × 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 Relating to M&A Rules and Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the China Securities Regulatory Commission, or the CSRC, adopted the Regulations on Mergers of Domestic Enterprises by Foreign Investors, or 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 the increased capital of a domestic company, thus changing 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 asset of a domestic company, establish a foreign-invested enterprise by injecting such assets and operate the assets. The M&A Rules purport, among other things, to require offshore special purpose vehicles formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

According to the Anti-Monopoly Law which took effect as of August 1, 2008, where the concentration of business operators reaches the filing thresholds stipulated by the State Council, business operators shall file a declaration with the SAMR, and no concentration shall be implemented until the SAMR clears the anti-monopoly filing. Pursuant to the Notice of the General Office of the State Council on the Establishment of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors and the Security Review Rules issued by the General Office of the State Council on February 3, 2011 and became effective on March 3, 2011, mergers and acquisitions by foreign investors that raise “national defense and security” concerns, and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns, are subject to strict review by the PRC government authorities. On August 25, 2011, the MOFCOM issued the Provisions of the Ministry of Commerce for the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which provides that if a foreign investor’s merger or acquisition of a domestic enterprise falls within the scope of security review specified in the Notice of the General Office of the State Council on the Establishment of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, the foreign investor shall file an application with MOFCOM for security review. Whether a foreign investor’s merger or acquisition of a domestic enterprise falls within the scope of security review or not shall be determined based on the substance and actual influence of the merger or acquisition transaction. No foreign investor is allowed to substantially avoid the security review in any way, including but not limited to, holding shares on behalf of others, trust arrangements, multi-level reinvestment, leasing, loans, contractual control, or overseas transactions.

On February 17, 2023, the CSRC released Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (the “Trial Measures”) which came into effect on March 31, 2023. Pursuant to Trial Measures, a PRC domestic company that seeks to offer and list securities in overseas markets, either in direct or indirect overseas offering, shall fulfill the filing procedure with the CSRC per requirement of the Trial Measures, submit relevant materials that contain a filing report and a legal opinion, and provide truthful, accurate and complete information on the shareholder and etc. Direct overseas offering and listing by domestic companies refers to such overseas offering and listing by a joint-stock company incorporated domestically. Any overseas offering and listing made by an issuer that meets both the following conditions will be determined as indirect offering and listing in overseas market and, therefore, be subject to filing requirement: (i) 50% or more of the issuer’s operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent accounting year is accounted for by domestic companies; and (ii) the main parts of the issuer’s business activities are conducted in the Mainland China, or its main places of business are located in the Mainland China, or the senior managers in charge of its business operation and management are mostly Chinese citizens or domiciled in the Mainland China. The determination as to whether or not an overseas offering and listing by domestic companies is indirect, shall be made on substance over form basis. In addition, initial public offerings or listings in overseas markets or subsequent securities offerings and listing of an issuer in overseas market other than where it has offered and listed shall be filed with the CSRC within 3 working days after the relevant application is submitted overseas. Subsequent securities offerings of an issuer in the same overseas market where it has previously offered and listed securities shall be filed with the CSRC within 3 working days after such offering is completed. A PRC domestic company that seeks to directly or indirectly list its domestic assets in overseas markets through single or multiple acquisitions, share swaps, transfers of shares or other means, shall also fulfil the filing procedure as prescribed above. Furthermore, upon the occurrence of any of the material events specified below after an issuer has offered and listed securities in an overseas market, the issuer shall submit a report thereof to CSRC within 3 working days after the occurrence and public disclosure of the event: (i) change of control; (ii) investigations or sanctions imposed by overseas securities regulatory agencies or other relevant competent authorities; (iii) change of listing status or transfer of listing segment; (iv) voluntary or mandatory delisting. Where an issuer’s main business undergoes material changes after overseas offering and listing, and is therefore beyond the scope of business stated in the filing documents, such issuer shall submit to the CSRC an ad hoc report and a relevant legal opinion issued by a domestic law firm within 3 working days after occurrence of the changes. However, the PRC Companies already listed overseas before effectiveness of Trial Measures are not required to submit any records with the CSRC until they have successive refinancing demand or other filing requirement. A six-month transition will be given to PRC domestic enterprises that have obtained the approval of overseas regulatory bodies or exchanges since implementation date of the Trial Measure but have not completed the overseas listing. If they fail to complete the overseas listing within six months, they should file records with CSRC according to the requirements. The Trial Measure further stipulate that CSRC may order rectification, issue warnings, and impose a fine between RMB1 million and RMB10 million if an applicant fails to fulfill the filing requirements with the CSRC or conducts an overseas offering or listing in violation of the Trial Measure.

On February 24, 2023, the CSRC, together with other PRC government authorities, released the Provisions on Strengthening the Confidentiality and Archives Administration Related to the Overseas Securities Offering and Listing by Domestic Enterprises (the “Confidentiality and Archives Administration Provisions”), which came into effect on March 31, 2023. The Confidentiality and Archives Administration Provisions require, among others, that PRC domestic enterprises seeking to offer and list securities in overseas markets, either directly or indirectly, shall establish the confidentiality and archives system, and shall complete approval and filing procedures with competent authorities, if such PRC domestic enterprises or their overseas listing entities provide or publicly disclose documents or materials involving state secrets and work secrets of PRC government agencies to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals. It further stipulates that providing or publicly disclosing documents and materials which may adversely affect national security or public interests, and accounting files or copies of important preservation value to the state and society shall be subject to corresponding procedures in accordance with relevant laws and regulations.

Regulations Relating to Cybersecurity and Privacy Protection

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of these rights. In recent years, PRC government authorities have enacted legislation on the Internet use to protect personal information from any unauthorized disclosure. Under the Several Provisions on Regulating the Market Order of Internet Information Services which was promulgated by MIIT on December 29, 2011, an Internet content service operator may not collect any user personal information or provide any such information to third parties without the consent of a user, unless otherwise stipulated by laws and administrative regulations. An Internet content service operator must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An Internet content service operator is also required to properly keep the user personal information, and in case of any leak or likely leak of the user personal information, the Internet content service operator must take immediate remedial measures and, in severe circumstances, to make an immediate report to the telecommunication regulatory authority.

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In addition, the Decision on Strengthening Network Information Protection, which was promulgated by the Standing Committee of NPC on December 28, 2012, provides that electronic information that is able to identify personal identities of citizens or is concerned with personal privacy of citizens is protected by law and shall not be unlawfully obtained or provided. Internet content service operators collecting or using personal electronic information of citizens shall specify purposes, manners and scopes of information collection and use, obtain the consent of citizens concerned, and strictly keep confidential personal information collected. Internet content service operators are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with personal information collected. Technical and other measures are required to be taken by Internet content service operators to prevent personal information collected from unauthorized disclosure, damage or being lost. Internet content service operators are subject to legal liability, including warnings, fines, confiscation of illegal gains, revocation of licenses or filings, closing of websites concerned, public security administration punishment, criminal liabilities, or civil liabilities, if they violate relevant provisions on Internet privacy.

Pursuant to the Order for the Protection of Telecommunication and Internet User Personal Information which was promulgated by MIIT on July 16, 2013, any collection and use of users' personal information must be subject to the consent of the users, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. Pursuant to the Ninth Amendment to the Criminal Law which was issued by the Standing Committee of NPC on August 29, 2015 and became effective on November 1, 2015, any Internet service provider that fails to fulfill obligations to manage information and network security as required by applicable laws and refuses to rectify upon orders from government authorities, will be subject to the criminal penalty if such failure (i) causes dissemination of illegal information in large scale; (ii) causes user information leaks resulting in severe consequences; (iii) causes serious loss of evidence to criminal investigations; or (iv) implicates other severe circumstances. Moreover, any individual or entity that (i) sells or provides personal information to others in violation of applicable laws, or (ii) steals or illegally obtains any personal information, in either case implicating severe circumstances, will be subject to the criminal penalty. The PRC government, however, has the power and authority to order Internet content service operators to turn over personal information if an Internet user posts any prohibited content or engages in illegal activities on the Internet.

To further regulate cybersecurity and privacy protection, the PRC Cybersecurity Law which was promulgated by the Standing Committee of NPC on November 7, 2016 and took effect on June 1, 2017, provides that: subject to certain exceptions, (i) to collect and use personal information, network operators must follow the principles of legitimacy, rightfulness, and necessity, disclose their rules of data collection and use, clearly express the purposes, means, and scope of collecting and using the information, and obtain the consent of the persons whose data is gathered; (ii) network operators can neither gather personal information unrelated to the services they provide, nor gather or use personal information in violation of the provisions of laws and administrative regulations or the scopes of consent given by the persons whose data is gathered, and must dispose of personal information they have saved in accordance with the provisions of laws and administrative regulations and agreements reached with users; (iii) network operators cannot divulge, tamper with, or damage the personal information they have collected, and cannot provide the personal information to others without the consent of persons whose data is collected. According to the PRC Cybersecurity Law, personal information refers to all kinds of information that are recorded electronically or that can otherwise be used to independently identify or be combined with other information to identify natural persons' personal information, including but not limited to natural persons' names, dates of birth, identification numbers, biologically identified personal information, addresses, and telephone numbers. Any Internet information services provider that violates these privacy protection requirements under the PRC Cybersecurity Law and related laws and regulations may be ordered to turn in illegal gains generated from unlawful operations and pay a fine of no less than one but no more than ten times of the illegal gains and may be ordered to cease the relevant business operations when the violation is serious.

On June 28, 2016, the CAC issued the Administrative Provisions on Mobile Internet Applications Information Services, which became effective on August 1, 2016, to further strengthen the regulation of the mobile app information services. Pursuant to these provisions, owners or operators of mobile apps that provide information services are required to be responsible for information security management, establish and improve the protective mechanism for user information, observe the principles of legality, rightfulness and necessity, and expressly state the purpose, method and scope of, and obtain user consent to, the collection and use of users' personal information.

On May 8, 2017, the Supreme People's Court and the Supreme People's Procuratorate issued the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information, or the Personal Information Interpretations, which became effective on June 1, 2017. The Personal Information Interpretations provides more practical conviction and sentencing criteria for the infringement of citizens' personal information.

On January 23, 2019, the PRC Office of the Central Cyberspace Affairs Commission and other three authorities jointly issued the Circular on the Special Campaign of Correcting Unlawful Collection and Usage of Personal Information via Apps. Pursuant to this circular, (i) app operators are prohibited from collecting any personal information irrelevant to their services; (ii) information collection and usage policy should be presented in a simple and clear way, and such policy should be consented by the users voluntarily, and; (iii) authorization from users should not be obtained by coercing users with default or bundling clauses or making consent a condition of service. App operators violating these rules can be ordered by authorities to correct their noncompliance within a given period of time, be publicly reported, or ordered to quit its operation or cancel its business license or operational permits.

On April 10, 2019, the Ministry of Public Security promulgated the Guidelines for Internet Personal Information Security Protection, which establishes the management mechanism, security technical measures and business workflows for personal information security protection. On August 22, 2019, the CAC promulgated the Provisions on the Cyber Protection of Children's Personal Information which requires, among others, that network operators who collect, store, use, transfer and disclose personal information of children under the age of 14 shall establish special rules and user agreements for the protection of children's personal information, inform the children's guardians in a noticeable and clear manner, and shall obtain the consent of the children's guardians.

On November 28, 2019, the CAC, MIIT, the Ministry of Public Security and SAMR jointly promulgated the Measures for the Determination of the Collection and Use of Personal Information by Apps in Violation of Laws and Regulations, which provides guidance for the regulatory authorities to identify the illegal collection and use of personal information through mobile apps, and for the app operators to conduct self-examination and self-correction and social supervision by citizens.

On May 28, 2020, the NPC approved the Civil Code of the PRC or the Civil Code, which came into effect on January 1, 2021. Pursuant to the Civil Code, the personal information of a natural person shall be protected by the law. Any organization or individual that needs to obtain personal information of others shall obtain such information legally and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others. Furthermore, information processors shall not divulge or tamper with personal information collected or stored by them; without the consent of a natural person, information processors shall not illegally provide personal information of such person to others, except for information that has been processed so that specific persons cannot be identified and that cannot be restored. In addition, an information processor shall take technical measures and other necessary measures to ensure the security of the personal information that is collected and stored and to prevent the information from being divulged, tampered with or lost; where personal information has been or may be divulged, tampered with or lost, the information processor shall take remedial measures in a timely manner, inform the natural person concerned in accordance with the provisions and report the case to the relevant competent department.

On August 20, 2021, the SCNPC adopted the Personal Information Security Law, which took effect on November 1, 2021. The Personal Information Protection Law includes the basic rules for personal information processing, the rules for cross-border provision of personal information, the rights of individuals in personal information processing activities, the obligations of personal information processors, and the legal responsibilities for illegal collection, processing, and use of personal information. As the first systematic and comprehensive law specifically for the protection of personal information in the PRC, the Personal Information Protection Law provides, among others, that (i) an individual's consent shall be obtained to use sensitive personal information, such as biometric characteristics and individual location tracking, (ii) personal information operators using sensitive personal information shall notify individuals of the necessity of such use and impact on the individual's rights, and (iii) where personal information operators reject an individual's request to exercise his or her rights, the individual may file a lawsuit with a People's Court.

On November 14, 2021, the CAC published the Regulations of Internet Data Security Management (Draft for Comments), which further regulate the internet data processing activities and emphasize the supervision and management of network data security, and further stipulate the obligations of internet platform operators, such as to establish a system for disclosure of platform rules, privacy policies and algorithmic strategies related to data. Specifically, the draft regulations require data processors to, among others, (i) adopt immediate remediation measures when finding that network products and services they use or provide have security defects and vulnerabilities, or threaten national security or endanger public interest, and (ii) follow a series of detailed requirements with respect to processing of personal information, management of important data and proposed overseas transfer of data. In addition, the draft regulations require data processors handling important data or the data processors to be listed overseas to complete an annual data security assessment and file a data security assessment report to applicable regulators. Such annual assessment, as required by the draft regulations, would encompass areas including, but not limited to, the status of important data processing, data security risks identified and the measures adopted, the effectiveness of data protection measures, the implementation of national data security laws and regulations, data security incidents that occurred and their handling, and a security assessment with respect to sharing and provision of important data overseas. As of the date of this annual report, the draft regulations have been released for public comment only and have not been formally adopted. The final provisions and the timeline for its adoption are subject to changes and uncertainties.

Currently, our business does not involve the collection of user data, implicate cybersecurity, or involve any other type of restricted industry. Based on the advice of PRC counsel and our understanding of currently applicable PRC laws and regulations, our registered public offering in the U.S. is not subject to the review or prior approval of the CAC.

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

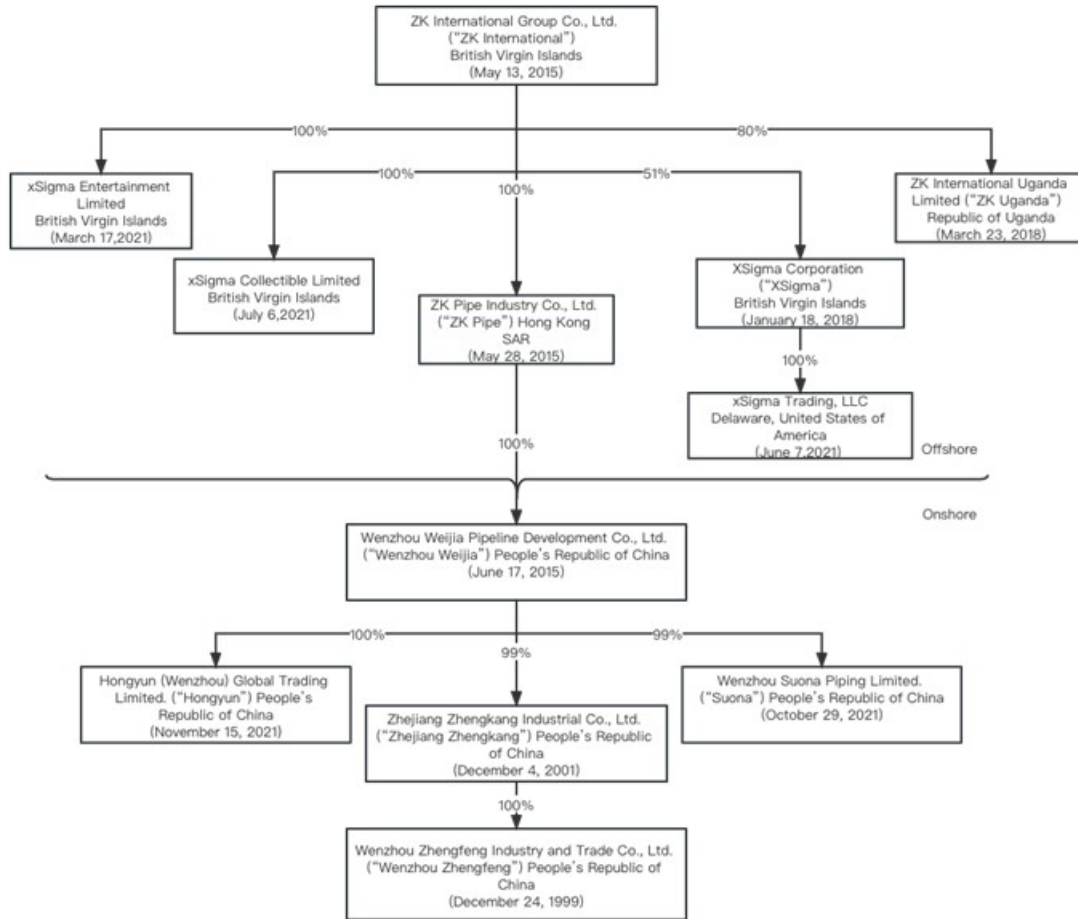
Pursuant to the PRC Labor Law, the PRC Labor Contract Law and the Implementing Regulations of the Employment Contracts Law, labor relationships between employers and employees must be executed in written form. Wages may not be lower than the local minimum wage. Employers must establish a system for labor 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.

4.C. Organizational Structure

Below is a chart illustrating our current corporate structure:



4.D. 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:

<u>Property</u>	<u>Duration of Land Use Rights</u>	<u>Space</u>	<u>Ground Floor Area</u>
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 ²	9,600 m ²
Longlian Plaza Building #3, Yongzhong Boulevard, 167 North Luodong Road, Suite 702, Longwan District, Wenzhou, Zhejiang Province, P.R. China	August 19, 2016 – November 12 2051	1012 m ²	—
23 units of Xuri Xiaogu, B404 Binhai Industrial Park Economic & Technology Development Zone Wenzhou, Zhejiang Province P.R. China 325020	March 31, 2003 – March 31, 2073	1377.14 m ²	—

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

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. During the fiscal year 2022, the Company experienced delays in the purchase of raw material from supplies and delivery of products to domestic customers in China on a timely basis as a consequence of travel restrictions. Although the situation has eased since mid-May 2022, the number of orders placed by the customers was affected, as the business of those customers was negatively impacted. Meanwhile, the prices of the raw materials have also risen significantly since October 2021, especially the nickel which is an important component of stainless steel. Our management believes that the above negative impacts of the COVID-19 pandemic had a negative impact on our overall business operations and financial results for the fiscal year 2022. For the fiscal year 2023, many of the restrictive measures previously adopted by the PRC governments at various levels to control the spread of the COVID-19 virus have been revoked or replaced with more flexible measures since December 2022. The revocation or replacement of the restrictive measures to contain the COVID-19 pandemic had a positive impact on our normal operations.

The extent to which the COVID-19 outbreak impacts our financial condition and results of operations for the full year of 2024 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 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.

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The following table presents an overview of our results of operations for the years ended September 30, 2023, 2022 and 2021:

	For the year ended September 30,		
	2023	2022	2021
Revenues	\$ 111,599,686	\$ 102,391,636	\$ 99,407,217
Cost of sales	(110,303,270)	(94,796,037)	(92,936,029)
Gross profit	1,296,416	7,595,599	6,471,188
Operating expenses:			
Selling and marketing expenses	2,117,810	2,380,429	3,117,906
General and administrative expenses	5,144,340	5,421,575	5,772,710
Asset impairment loss	53,203,517	2,771,019	—
Research and development costs	1,274,337	987,186	1,234,161
Total operating expenses	61,740,004	11,560,209	10,124,777
Operating loss	(60,443,588)	(3,964,610)	(3,653,589)
Other income (expenses):			
Interest expenses	(1,583,734)	(3,451,665)	(1,196,648)
Interest income	36,699	109,290	13,733
Income on investment	—	—	50,649
Other income (expense), net	240,378	(88,125)	431,438
Total other expenses, net	(1,306,657)	(3,430,500)	(700,828)
Loss before income taxes	(61,750,245)	(7,395,110)	(4,354,417)
Income tax recovery	459,855	1,340,844	552,146
Net loss	\$ (61,290,390)	\$ (6,054,266)	\$ (3,802,271)
Net (loss) income attributable to non-controlling interests	229,596	(27,147)	2,757
Net loss attributable to ZK International Group Co., Ltd.	(61,060,794)	(6,081,413)	(3,799,514)
Net loss	(61,290,390)	\$ (6,054,266)	\$ (3,802,271)
Other comprehensive (loss) income:			
Foreign currency translation adjustment	(549,332)	(5,504,385)	2,423,439
Total comprehensive loss	\$ (61,839,722)	\$ (11,558,651)	\$ (1,378,832)

Revenue

Revenues increased by \$9,208,050 or 8.99%, to \$111,599,686 for the year ended September 30, 2023 from \$102,391,636 for the year ended September 30, 2022. The increase in revenues was primarily driven by the following factors:

- 1) During the fiscal year 2023, the decline of real estate market in China, especially the collapse of Evergrande, has set pressure on the steel pipe market. To strengthen the cash flow and expand our market share, we lowered our weighted average selling price (“ASP”) to boost our sales volume. However, we have observed the recovery of real estate market and increase of market demand for the first quarter of 2024 fiscal year, we expect to increase ASP for the 2024 fiscal year.
- 2) During 2023 fiscal year, the average selling price of electrolytic nickel increased by 33.33% from RMB 113,716 per ton in fiscal year 2022 to RMB 151,619 in fiscal year 2023; the average selling price of steel strip decreased by 1.82% from RMB 20.3 per kilogram in fiscal year 2022 to RMB 19.93 in fiscal year 2023; the average selling price of steel pipe decreased by 20.25% from RMB 140.26 per piece in fiscal year 2022 to RMB 111.86 in fiscal year 2023; the average selling price of pipe fittings decreased by 4.86% from RMB 22.65 each in fiscal year 2022 to RMB 21.55 in fiscal year 2023.

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- 3) Due to the decrease of product prices, we had an overall increase in sales volume. The sales volume of steel strip increased by 87.73% from 753.91 tons in fiscal year 2022 to 1,415.29 tons in fiscal year 2023; Sales volume of pipes increased by 0.42% from 592,919 in fiscal year 2022 to 595,395 in fiscal year 2023; The sales volume of pipe fittings increased by 29.28% from 7,103,894 pieces in fiscal year 2022 to 9,183,690 pieces in fiscal year 2023.

Revenues increased by \$2,984,419 or 3.00%, to \$102,391,636 for the year ended September 30, 2022 from \$99,407,217 for the year ended September 30, 2021. The increase in revenues was primarily driven by the following factors:

- 1) During the fiscal year 2022, we observed an increase of raw materials, especially the price of nickel which is an important component of stainless steel. To minimize the impact the rise of raw material price, we increased our weighted average selling price (“ASP”) during the fiscal year 2022.
- 2) During 2022 fiscal year, the average selling price of electrolytic nickel decreased by 0.33% from RMB 114,092 per ton in fiscal year 2021 to RMB 113,716 in fiscal year 2022; the average selling price of steel strip increased by 34.26% from RMB 15.12 per kilogram in fiscal year 2021 to RMB 20.3 in fiscal year 2022; the average selling price of steel pipe increased by 29.00% from RMB 108.73 per piece in fiscal year 2021 to RMB 140.26 in fiscal year 2022; the average selling price of pipe fittings increased by 33.71% from RMB 16.94 each in fiscal year 2021 to RMB 22.65 in fiscal year 2022.
- 3) Due to the rise of product prices, we had an overall decrease in sales volume. The sales volume of steel strip decreased by 62.98% from 2227.19 tons in fiscal year 2021 to 753.91 tons in fiscal year 2022; Sales of pipes decreased by 25.28% from 793,480 in fiscal year 2021 to 592,919 in fiscal year 2022; The sales volume of pipe fittings decreased by 22.16% from 9,126,002 pieces in fiscal year 2021 to 7,103,894 pieces in fiscal year 2022.

Gross profit

Our gross profit decreased by \$6,299,183 or 82.93% to \$1,296,416 for the year ended September 30, 2023 from \$7,595,599 for the year ended September 30, 2022. Gross profit margin was 1.16% for the year ended September 30, 2023, as compared to 7.42% for the year ended September 30, 2022. The decrease of gross profit was primarily due to decreased weighted average selling prices while our cost of raw material remained stable. However, we have observed the recovery of real estate market and increase of market demand for the first quarter of 2024 fiscal year, we expect to increase ASP for the 2024 fiscal year which will improve our gross margin.

Our gross profit increased by \$1,124,411 or 17.38% to \$7,595,599 for the year ended September 30, 2022 from \$6,471,188 for the year ended September 30, 2021. Gross profit margin was 7.42% for the year ended September 30, 2022, as compared to 6.51% for the year ended September 30, 2021. The increase of gross profit was primarily due to increased weighted average selling prices which is attributable to the rise of raw material prices and market demand recovery over the construction materials and supply shortages on the current market compared to the fiscal year 2021.

Selling and Marketing Expenses

We incurred \$2,117,810 in selling and marketing expenses for the fiscal year ended September 30, 2023, compared to \$2,380,429 for the fiscal year ended September 30, 2022. Selling and marketing expenses decreased by \$262,619 or 11.03%, during the fiscal year ended September 30, 2023 compared to the fiscal year ended September 30, 2022. This decrease is primarily due to decreases in sales payroll expenses, compensation for the sales personnel, freight expenses, and transportation fee during the year.

We incurred \$2,380,429 in selling and marketing expenses for the fiscal year ended September 30, 2022, compared to \$3,117,906 for the fiscal year ended September 30, 2021. Selling and marketing expenses decreased by \$737,477, or 23.65%, during the fiscal year ended September 30, 2022 compared to the fiscal year ended September 30, 2021. This decrease is primarily due to decreases in sales payroll expenses, compensation for the sales personnel, freight expenses, and technical service fee during the year.

General and Administrative expenses

We incurred \$5,144,340 in general and administrative expenses for the fiscal year ended September 30, 2023, compared to \$5,421,575 for the fiscal year ended September 30, 2022. General and administrative expenses decreased by \$277,235, or 5.11%, for the fiscal year ended September 30, 2023 compared to the fiscal year ended September 30, 2022. The slight decrease is mainly attributable to the decreased employee compensation and benefit expense and consulting expenses incurred during the fiscal year 2023.

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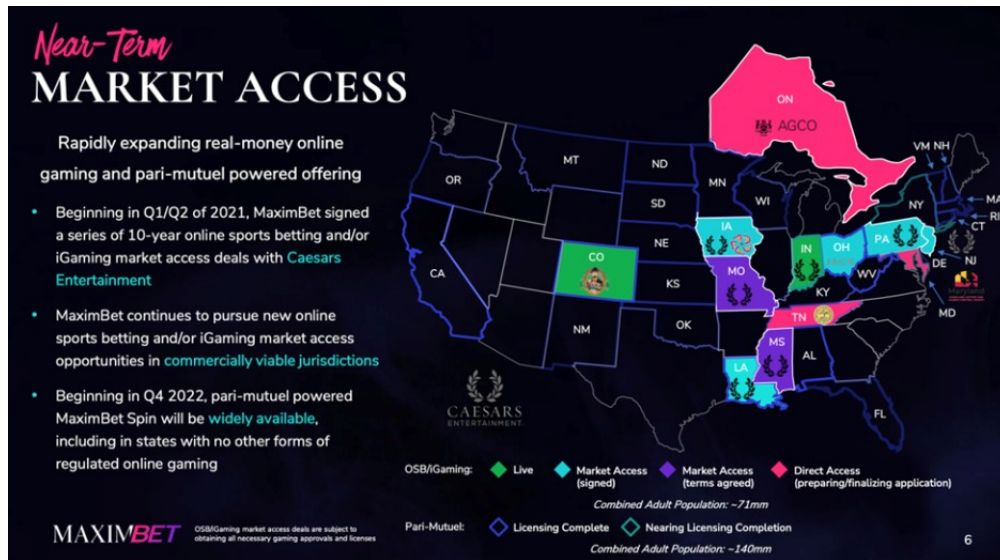
We incurred \$5,421,575 in general and administrative expenses for the fiscal year ended September 30, 2022, compared to \$5,772,710 for the fiscal year ended September 30, 2021. General and administrative expenses decreased by \$351,136, or 6.08%, for the fiscal year ended September 30, 2022 compared to the fiscal year ended September 30, 2021. The slight decrease is mainly attributable to the decreased stock-based compensation incurred during the fiscal year 2022.

Asset impairment costs

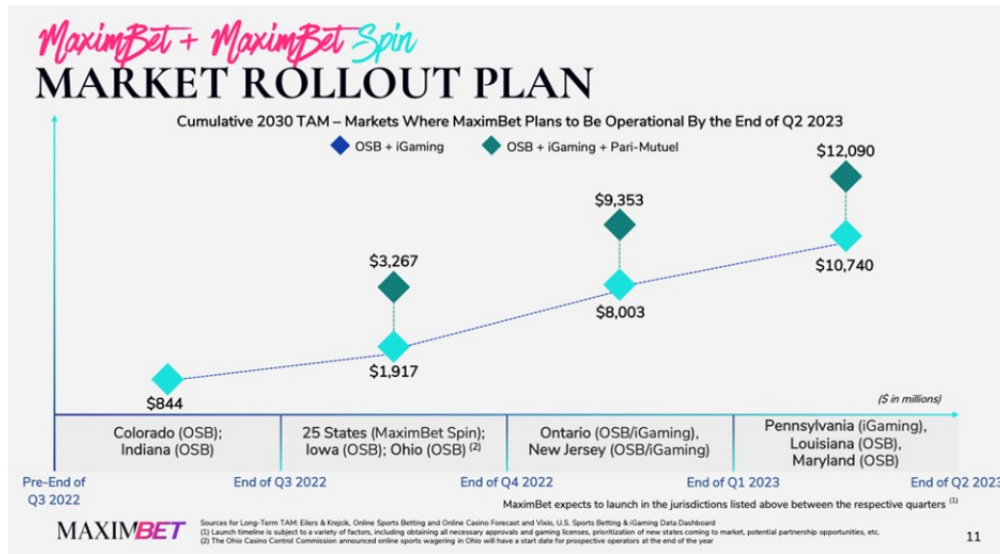
CG Malta Holding Limited (“CG Malta”)

On April 8, 2021, 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 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\$35 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.

For the 2021 and 2022 fiscal years, CG Malta achieved high growth with its online gaming services launched in more than 10 states in US with high growth rate of Real Money Handle and First-Time Depositor. Below is a snapshot of CG Malta’s market access in United States as of September 30, 2022:



As of September 30, 2022, 48 U.S. states have some form of legalized gaming (including the lottery) and 26 have legalized online sports betting and/or iGaming. To address the increasing market demand, CG Malta made Market Rollout Plan as follows:



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As of September 30, 2022, the Company carried this investment at its cost in the amount of \$25,000,000. For the year ended September 30, 2022, no impairment was recognized for the investment in CG Malta. However, during the 2023 fiscal year, the competition of gaming market has been increasingly intense. Market bullishness and valuations peaked in early-2023 and declined rapidly from there, preventing CG Malta from raising further capital to execute its business plan. For the best interest of the Company's shareholder, the Company decided to stop funding CG Malta and instead demanded the management team of CG Malta took active measures to achieve organic growth and healthy cash flow. However, the business was unable to raise the capital required to fund the business plan, and therefore the shareholders of CG Malta passed shareholder resolution on November 27, 2023 to cease operations of CG Malta and wind up the entity. For the year ended September 30, 2023, the Company has written off the investment in CG Malta and recorded impairment loss of \$25,000,000.

Software Platforms

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, 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.

During 2023 fiscal year, the Company evaluated the recoverability of the three platforms, including Defi Exchange, xSigma Trading, and MaximNFT pursuant to ASC 360-10-35-21 and concluded that the carrying value of the three platforms may not be recoverable as it projects that the platform is likely to have continuing losses and it's more likely than not this platform will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The Company wrote off the carrying value of the platform and recorded a loss of \$10,346,769.

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During 2022 fiscal year, the Company evaluated the recoverability of the Defi platform pursuant to ASC 360-10-35-21 and concluded that the carrying value of the Defi Exchange may not be recoverable as it projects that the platform is likely to have continuing losses and it's more likely than not this platform will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The Company wrote off the carrying value of the platform and recorded a loss of \$2,771,019.

Long-term Prepayment

During 2021 fiscal year, the Company pledged cash deposit of RMB 74,317,541 to one third party entity, which the Company is seeking to acquire certain percentage of ownership of (the "Target Company"). The deposit was used as acquisition deposits required by the Target Company in order to execute their respective acquisition memorandum which details the acquisition and valuation methods but is not legally binding. In the case that the 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. During the fiscal year ended September 30, 2022, the proposed acquisition was terminated due to the target was acquired by a Chinese State Owned Enterprise, and the Target Company is obligated to return the fund to the Company. The Company reached oral agreement with the Target Company to settle all or part of its outstanding long-term deposit by acquiring its patents. During the fiscal year ended September 30, 2023, the Company and Target Company agreed on certain research and development arrangements which Target Company was delegated to conduct certain research and development programs. The arrangements were intended to strengthen the Company's competitive advantage by leveraging the Target Company's research capabilities. The Company is not obligated to fund the research and development programs but having the right of first refusal to acquire any patent or technical innovation generated out of the programs. Patent or technical innovation, if acquired by the Company, will be appraised and the appraised value will settle all or part of the outstanding long-term deposit. However, during the fiscal year ended September 30, 2023, no patent or technical innovation was materialized, and the Company demanded the payback of the long-term prepayment. Due to the uncertainty of collection and prospect of the research programs, the Company has written off approximately of \$9.83 million long-term prepayment.

Credit Loss of Accounts Receivable

The Company recorded provision for credit loss of accounts receivable of approximately \$6.74 million. During 2023 fiscal year, the Company evaluated the collectability of its accounts receivable and wrote off the long-aging portion which it determined that the likelihood of collection is not probable.

Research and Development Expenses

We incurred \$1,274,337 in research and development expenses for the fiscal year ended September 30, 2023, compared to \$987,186 for the fiscal year ended September 30, 2022. R&D expenses increased by \$287,151, or 29.09%, for the fiscal year ended September 30, 2023 compared to the fiscal year ended September 30, 2022. The increase was primarily due to the increased research and development activities during fiscal year 2023.

We incurred \$987,186 in research and development expenses for the fiscal year ended September 30, 2022, compared to \$1,234,161 for the fiscal year ended September 30, 2021. R&D expenses decreased by \$246,975, or 20.01%, for the fiscal year ended September 30, 2022 compared to the fiscal year ended September 30, 2021. The decrease was primarily due to the decreased research and development activities during fiscal year 2022.

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Income from operations

As a result of the factors described above, operating loss was \$60,443,588 for the fiscal year ended September 30, 2023, compared to operating loss of \$3,964,610 for the fiscal year ended September 30, 2022, an increase of operating loss of \$56,478,979 or approximately 1424.58%.

As a result of the factors described above, operating loss was \$3,964,610 for the fiscal year ended September 30, 2022, compared to operating loss of \$3,653,589 for the fiscal year ended September 30, 2021, an increase of operating loss of \$311,021 or approximately 8.51%.

Other income and expenses

Our interest income and expenses were \$36,699 and \$1,583,734, respectively, for the fiscal year ended September 30, 2023, compared to interest income and expenses of \$109,290 and \$3,451,665, respectively, for the fiscal year ended September 30, 2022. We also had government grant of \$337,216 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 \$109,290 and \$3,451,665, respectively, for the fiscal year ended September 30, 2022, compared to interest income and expenses of \$13,733 and \$1,196,648, respectively, for the fiscal year ended September 30, 2021. We also had government grant of \$ 496,740 for financial support to the Company under local government's innovation incentive programs which was recorded as other income in our Statement of Operations.

Net Income

As a result of the factors described above, our net loss for the fiscal year ended September 30, 2023 was \$61,290,390 compared to net loss of \$6,054,266 for the fiscal year ended September 30, 2022, an increase in loss of \$55,236,125 or approximately 912.35%.

As a result of the factors described above, our net loss for the fiscal year ended September 30, 2022 was \$6,054,266 compared to net loss of \$3,802,271 for the fiscal year ended September 30, 2021, an increase in loss of \$2,251,995 or approximately 59.23%.

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 loss for the fiscal year ended September 30, 2023 was \$549,332, compared to a currency translation loss of \$5,504,385 for the fiscal year ended September 30, 2022, a decrease of \$4,955,053. The decreased loss is primarily due to the depreciation of RMB against the U.S. dollars. Our foreign currency translation loss for the fiscal year ended September 30, 2022 was \$5,504,385, compared to a currency translation gain of \$2,423,439 for the fiscal year ended September 30, 2021, a decrease of \$7,927,824. 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, 2023, 2022 and 2021, we had cash and cash equivalents of \$5,045,406, \$7,515,147, and \$13,525,298 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.

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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 \$7,470,323 as of September 30, 2023 and \$7,470,323 as of September 30, 2022. 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,		
	2023	2022	2021
Net cash used in operating activities	\$ (1,905,912)	\$ (2,072,220)	\$ (3,479,064)
Net cash used in investing activities	(2,294,462)	(2,108,436)	(27,146,073)
Net cash provided by (used in) financing activities	2,068,157	(969,956)	40,241,501
Effect of exchange rate changes on cash	(439,515)	(835,453)	227,305
Net (decrease) increase in cash	\$ (2,571,733)	\$ (5,986,065)	\$ 9,843,669
Cash, cash equivalents and restricted cash at beginning of period	7,617,139	13,603,204	3,759,535
Cash, cash equivalents and restricted cash at end of period	\$ 5,045,406	\$ 7,617,139	\$ 13,603,204

Operating Activities:

Net cash used in operating activities for the year ended September 30, 2023 was approximately \$1.91 million, which was primarily attributable to a net loss approximately \$61.29 million, adjusted for non-cash items for approximately \$56.75 million and adjustments for changes in working capital approximately \$2.63 million. The adjustments for changes in working capital mainly included:

- (i) Decrease in accounts receivable of approximately \$8.17 million – our accounts receivable decreased significantly because we collected a significant amount from certain customers during 2023 fiscal year. During 2023 fiscal year, the Company evaluated the collectability of its accounts receivable and wrote off the long-aging portion which it determined that the likelihood of collection is not probable

The following table is our net accounts receivable aging schedule, including our long-term accounts receivable, as of September 30, 2023, 2022, and 2021:

	Total	< 1 Year	1-2 Years	2-3 Years	> 3 Years
As of September 30, 2023	\$ 20,264,696	\$ 10,802,879	\$ 7,582,067	\$ 1,879,750	\$ —
As of September 30, 2022	\$ 35,885,121	\$ 28,168,738	\$ 3,009,316	\$ 2,896,393	\$ 1,810,674
As of September 30, 2021	\$ 27,124,959	\$ 11,594,453	\$ 7,668,524	\$ 6,422,535	\$ 1,439,447

- (ii) Decrease in inventories of approximately \$2.87 million for the year ended September 30, 2023 because of the order fulfillment and product delivery to our customers. During the 2023 fiscal year, the Company lowered its inventory level to strengthen the cash flow and operational liquidity.

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- (iii) Decrease in accounts payables of approximately \$7.45 million – During 2022 fiscal year we had increased raw material orders placed to our suppliers during August and September 2022 to match the production orders and delivery schedule we committed to our customers and thus resulted in a significant increase of accounts payable which was fully paid in the 2023 fiscal year.
- (iv) Decrease in accrued expenses and other current liabilities of approximately \$1.92 million mainly due to decreased VAT tax payable which the Company paid during 2023 fiscal year.
- (v) Decrease in advance to suppliers of approximately \$1.40 million mainly due to significant purchase order delivery from our suppliers during 2023 fiscal year which offset the advance balance.

Net cash used in operating activities for the year ended September 30, 2022 was approximately \$2.07 million, which was primarily attributable to a net loss approximately \$6.05 million, adjusted for non-cash items for approximately \$6.62 million and adjustments for changes in working capital approximately \$2.64 million. The adjustments for changes in working capital mainly included:

- (i) Increase in accounts receivable of approximately \$12.06 million – our accounts receivable increased significantly because 1) we delivered a significant amount of orders during August and September 2022 which incurred a significant amount of accounts receivable as of September 30, 2022. We subsequently collected the outstanding accounts receivable as of September 30, 2022 for the orders delivered during August and September 2022, and 2) the Company sold accounts receivables of its 144 customers with aggregated amount of RMB 65,776,506 to a third-party company with no recourse. The buyer shall pay to the Company RMB 62,487,681, which is 95% of the transferred accounts receivable value, no later than December 31, 2024 and therefore was classified as long-term accounts receivable with discounted present value of \$7,522,188.

The following table is our net accounts receivable aging schedule, including our long-term accounts receivable, as of September 30, 2022, 2021, and 2020:

	Total	< 1 Year	1-2 Years	2-3 Years	> 3 Years
As of September 30, 2022	\$ 35,885,121	\$ 28,168,738	\$ 3,009,316	\$ 2,896,393	\$ 1,810,674
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

- (ii) Decrease in advances to suppliers of approximately \$5.49 million for the year ended September 30, 2022 because of the order fulfillment by our suppliers which offset advance balances.
- (iii) Increase in accounts payables of approximately \$8.80 million, primarily caused by the increased raw material orders placed to our suppliers during August and September 2022 to match the production orders and delivery schedule we committed to our customers and thus resulted in a significant increase of accounts payable.
- (iv) Decrease in advances from customers of approximately \$3.66 million because of the product delivery to our customers which offset advance balances.

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.

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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.

Investing Activities:

Net cash used in investing activities was approximately \$2.29 million for the year ended September 30, 2023. It was primarily attributable to the purchase of new equipment and CIP which approximately \$1.59 million for production needs, and the purchase of intangible assets of approximately 0.71 million.

Net cash used in investing activities was approximately \$2.11 million for the year ended September 30, 2022. It was primarily attributable to the development of intangible assets which approximately \$1.59 million for the development and deployment of the xSigma Trading platform and MaximNFT platform.

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.

Financing Activities:

Net cash provided by financing activities was approximately \$2.07 million for the year ended September 30, 2023. It was primarily attributable to the net proceeds of short-term bank borrowing of approximately \$2.14 million and net proceeds from short-term investment of approximately \$0.85 million, which is partially offset by net repayments to related party of approximately \$0.92 million.

Net cash used in financing activities was approximately \$0.97 million for the year ended September 30, 2022. It was primarily attributable to the net repayments of short-term bank borrowing of approximately \$3.39 million, and is partially offset by net proceeds received from related party of approximately \$1.17 million and net proceeds from short-term investment of approximately \$1.52 million.

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.

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Credit Facility

In addition to equity financing, we mainly finance our operations through short-term and long-term revolving loans provided by a syndicate of banks, as listed in the table below. As of September 30, 2023, we had 10 outstanding short-term loans provided by five (5) banks, totaling RMB 68,500,000 in the aggregate, or approximately \$9.39 million with a term of six months to one year and 6 outstanding long-term loans provided by three (3) banks, totaling RMB, 62,218,000 in the aggregate, or approximately \$8.53 million with a term of more than one year. 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 4.17% and 4.91% for the years ended September 30, 2023 and 2022, respectively.

Short-term bank borrowings consisted of the following at September 30, 2023:

Bank Name	Amount - RMB	Amount - USD	Issuance Date	Expiration Date	Interest
Industrial Bank	6,000,000	822,368	2022-11-03	2023-11-03	4.50 %
Industrial Bank	6,000,000	822,368	2022-11-04	2023-11-04	4.50 %
China Everbright Bank	10,000,000	1,370,614	2023-06-30	2024-06-29	3.20 %
China Minsheng Bank	1,000,000	137,061	2023-08-03	2024-03-01	3.75 %
China Minsheng Bank	10,000,000	1,370,614	2023-08-04	2024-03-01	3.75 %
China Minsheng Bank	5,000,000	685,307	2023-08-07	2024-03-01	3.75 %
CZBANK	9,250,000	1,267,818	2023-08-08	2024-08-06	4.50 %
CZBANK	1,250,000	171,327	2022-10-10	2023-10-09	5.00 %
Shanghai Pudong Development Bank	9,000,000	1,233,553	2023-09-19	2024-03-19	4.75 %
Shanghai Pudong Development Bank	11,000,000	1,507,676	2023-09-21	2024-03-21	4.75 %
Total	68,500,000	9,388,706			

Long-term bank borrowings consisted of the following at September 30, 2023:

Bank Name	Amount - RMB	Amount - USD	Issuance Date	Expiration Date	Interest
China Minsheng Bank	10,000,000	1,370,614	2023-08-11	2025-08-11	3.80 %
China Minsheng Bank	15,000,000	2,055,921	2023-08-14	2025-08-14	3.80 %
China Minsheng Bank	20,000,000	2,741,228	2023-08-21	2025-08-20	3.80 %
CZBANK	3,735,000	511,924	2023-03-14	2026-03-13	4.50 %
Huaxia Bank	6,790,000	930,647	2023-03-27	2026-03-15	4.15 %
Huaxia Bank	6,693,000	917,352	2023-03-28	2026-03-15	4.15 %
Total	62,218,000	8,527,686			

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Short-term bank borrowings consisted of the following at September 30, 2022:

Bank Name	Amount - RMB	Amount - USD	Issuance Date	Expiration Date	Interest
Industrial Bank	6,000,000	843,467	2021-11-08	2022-11-08	5.22 %
Industrial Bank	7,000,000	984,044	2021-11-05	2022-11-05	5.22 %
China Merchants Bank	13,000,000	1,827,511	2022-06-08	2022-12-07	4.80 %
China Minsheng Bank	10,000,000	1,405,778	2022-09-09	2023-09-09	4.20 %
China Minsheng Bank	15,000,000	2,108,667	2022-09-14	2023-09-14	4.20 %
China Minsheng Bank	16,000,000	2,249,244	2022-09-08	2023-09-08	4.20 %
China Minsheng Bank	20,000,000	2,811,555	2022-09-13	2022-09-13	4.20 %
CZBANK	2,000,000	281,156	2022-03-02	2023-02-28	5.60 %
CZBANK	3,000,000	421,733	2022-07-11	2023-07-10	5.00 %
CZBANK	5,850,000	822,380	2022-07-21	2023-07-19	5.00 %
CZBANK	1,000,000	140,578	2022-07-25	2023-07-24	5.00 %
CZBANK	1,500,000	210,867	2022-08-05	2023-08-04	5.00 %
CZBANK	1,400,000	196,809	2022-09-23	2023-09-22	5.00 %
Huaxia Bank	3,000,000	421,733	2022-03-23	2023-03-15	5.30 %
Huaxia Bank	4,000,000	562,311	2022-03-16	2023-03-01	5.30 %
Huaxia Bank	6,900,000	969,987	2022-05-05	2023-04-15	5.30 %
Total	115,650,000	16,257,820			

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,	
	2023	2022
Accounts receivable	\$ 706,623	\$ —
Buildings, net	1,145,778	1,211,943
Land use rights, net	346,947	368,015
Machinery, net	—	134,076
Construction in progress	685,992	—
Deposit Receipt	—	702,889
Total	\$ 2,885,340	\$ 2,416,923

C. Research and development, patents and licenses

Research and Development

For the years ended September 30, 2023, 2022, and 2021 we spent \$1,274,337, \$987,186 and \$1,234,161 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.

Going Concern Consideration

The consolidated financial statements for the years ended September 30, 2023 and 2022 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

As reflected in the consolidated financial statements, the Company has incurred net losses of \$61,507,395, \$6,054,266 and \$3,802,271 for the years ended September 30, 2023, 2022 and 2021, respectively. The Company had accumulated deficits amounted to \$47,881,492 as of September 30, 2023. Net cash used in operating activities was \$2,122,917 for the year ended September 30, 2023. These conditions raised substantial doubts about the Company's ability to continue as a going concern.

The Company meets its day-to-day working capital requirements through its bank facilities. Most of the bank borrowings as of September 30, 2023, that are repayable within the next 12 months, are subject to renewal, and the management is confident that these borrowings can be renewed upon expiration based on the Company's past experience and credit history. In addition, the Company had a positive working capital of \$18,376,141 as of September 30, 2023.

In order to strengthen the Company's liquidity in the foreseeable future, the Company has taken the following measures:

- (i) Negotiating with banks in advance for renewal and obtaining new banking facilities;
- (ii) Taking various cost control measures to tighten the costs of operations; and
- (iii) Implementing various strategies to enhance sales and profitability.

However, there can be no assurance that these plans and arrangements will be sufficient to fund the Company's ongoing capital expenditure, working capital, and other requirements. The accompanying consolidated financial statements do not include any adjustments related to the recoverability or classification of asset and the amounts or classification of liabilities that may result from the outcome of this uncertainty. If the going concern assumption is not appropriate, material adjustments to the financial statements could be required.

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.

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.

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, restricted cash, short-term investment, accounts receivable, accounts payable, short-term investment, other current assets, due to related parties, convertible notes, lease liabilities, other liabilities, notes receivable, notes payable, bank borrowings, long-term prepayment, long-term accounts receivable, other receivables and other borrowings, the carrying amounts approximate their fair values due to their short maturities as of September 30, 2023 and 2022. 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 carrying amount of the non-current bank borrowings approximates its fair value due to the fact that the related interest rate approximates the interest rates currently offered by financial institutions for similar debt instruments of comparable maturities.

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The Company noted no transfers between levels during any of the periods presented. 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, 2023 and 2022. 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.

Critical Accounting Estimates.

The Company prepares the financial statements in conformity with U.S. GAAP, which requires it to make estimates and assumptions that affect its reporting of, among other things, assets and liabilities, contingent assets and liabilities and total revenues and expenses. On an on-going basis, the Company evaluates its estimates based on historical experience and on various other assumptions that from other sources. Since the financial reporting process inherently relies on the use of estimates and assumptions, the actual results could differ from what the Company expects. The Company considers an accounting estimate to be critical if: (i) the accounting estimate requires the Company to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (ii) changes in the estimate that are reasonably likely to occur from period to period or use of different estimates that the Company reasonably could have used in the current period, would have a material impact on the financial condition or results of operations.

In preparing the consolidated financial statements, the directors are required to make judgements in making estimates and making assumptions about the future. These estimates could have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in the future financial periods. The critical judgements that have been made in arriving at the amounts recognized in the consolidated financial statements are discussed below.

Impairment for non-financial assets. (Long-term prepayment, Long-term investment and Intangible assets)

The carrying value of the long-term prepayment are reviewed for impairment only when events indicate the carrying value may be impaired. Impairment assessments require the use of estimates and assumptions. The provision for impairment of non-financial assets is determined by review of the estimated future cash flows. To assess impairment, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and risks specific to the related cash-generating unit. Significant judgement was applied in making estimates and assumptions about the future cash flows, including the appropriateness of discounts rates applied and operating performance. These critical estimates and assumptions are subject to risk and uncertainty. A significant, unforeseen downward adjustment in future prices and/or potential reserves could result in a material change in estimate non-financial assets impairment. Therefore, there is a possibility that changes in circumstances will impact the future cash flows or financial projections, which may impact the recoverable amount of those assets.

As disclosed in Note 7 to the Financial Statements, during the fiscal year ended September 30, 2023, the Company evaluated the recoverability of the three platforms, including Defi Exchange, xSigma Trading, and MaximNFT pursuant to ASC 360-10-35-21 and concluded that the carrying value of the three platforms may not be recoverable as it projects that the platform is likely to have continuing losses and it's more likely than not this platform will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The Company wrote off the carrying value of the platform and recorded a loss of \$10,346,769.

As disclosed in Note 8 to the Financial Statements, during the fiscal year ended September 30, 2023, due to he uncertainty of collection and prospect the research programs, the Company has fully written off of \$9.83 million long-term prepayment.

As disclosed in Note 10 to the Financial Statements, during the fiscal year ended September 30, 2023, the Company has fully written of the investment in CG Malta and recorded impairment loss of \$25,000,000 as CG Malta ceased operations and winded up.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2023:

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*	\$ 9,388,706	\$ 9,388,706	\$ —	\$ —	\$ —
Long-term bank loans*	8,527,686	—	8,527,686	—	—
Convertible debentures	4,011,224	4,011,224	—	—	—
Total	\$ 21,927,616	\$ 13,399,930	\$ 8,527,686	\$ —	\$ —

* 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

6.A. Directors and Senior Management

Name	Age	Position(s)
Jiancong Huang	60	Chief Executive Officer and Chairman of the Board
Xiaofen Jin	43	Chief Financial Officer
Di Chen	33	Secretary
Guolin Wang	55	Director
Hedong Xu	48	Independent Director & Chairman of the Audit Committee
Lie Cao	46	Independent Director
Linge Zhou	45	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.

Xiaofen Jin. Ms. Jin has served as the Chief Financial Officer of the Company’s PRC subsidiary, Zhejiang Zhengkang Industrial Co., Ltd., since March 2023. Ms. Jin has over ten years of experience in accounting and financial management. Prior to joining the Company, she served as the Chief Financial Officer of Zhejiang Kingstone Houseware Co., Ltd., a kitchen knives and cutlery manufacturer from October 2021 to February 2023. From April 2019 to October 2021, Ms. Jin served as the Chief Financial Officer of Fangzheng Valve Group Co., Ltd., an industrial valves manufacturer. From March 2015 to February 2019, Ms. Jin served as the Chief Financial Officer of Wenzhou Jiahe Investment Management Co., Ltd., a capital markets financial service company. From May 2011 to March 2015, Ms. Jin served as a Financial Manager of Zhejiang YAT Electric Appliance Co., Ltd., a garden machinery, electric tools and intelligent products manufacturer. Ms. Jin received an associate’s degree in Electronic Data Processing Accounting from Zhejiang University of Finance & Economics in 2002.

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.

Hedong Xu. Mr. Hedong Xu is a seasoned financial professional with over two decades of experience. Mr. Xu has served as the managing partner at Wenzhou Dexin Certified Public Accountants Co., Ltd. since April 2018. Previously, he served as senior partner and department manager at Wenzhou Oujiang Certified Public Accountants Co., Ltd. from January 2006 to March 2018. In 2018, Mr. Xu founded Zhejiang Guanzhongtang Health Industry Co., Ltd., a company focusing on healthcare and agricultural tourism. In 2012, Mr. Xu founded Wenzhou Oujia Enterprise Service Co., Ltd., a company specializing in corporate and tax consulting services. Mr. Xu holds a mid-level accountant certification, and he is also qualified as a Certified Public Accountant, Certified Real Estate Appraiser, and Certified Asset Appraiser. Mr. Xu has engaged in a wide array of services including financial analysis, risk assessment, internal control and advisory services for investment and financing projects, corporate mergers and acquisitions, and shareholding system reforms. Mr. Xu received his bachelor's degrees in accounting from the Open University of China.

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.

6.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, 2023 and 2022

During the fiscal years ended September 30, 2023 and 2022, 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 prior 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, 2023 and 2022, we paid salaries for 4 quarters. Our current audit committee chairman Hedong Xu is entitled to receive cash compensation of RMB60,000 (\$8,276) per year, effective on July 10, 2024, payable on a quarterly basis.

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.

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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, 2023 and 2022.

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	All Other Compensation (\$)	Total (\$)
Jiancong Huang (1)	2023	85,066	0	0	0	85,066
Chief Executive Officer	2022	91,558	0	0	0	91,558
Shaochai Yang (2)	2023	33,176	0	(2)	0	33,176
Former Chief Financial Officer	2022	35,708	0	0	0	35,708
Xiaofen Jin (3)	2023	0	0	(2)	0	0
Chief Financial Officer	2022	0	0	0	0	0
Di Chen (4)	2023	17,013	0	0	0	17,013
Secretary	2022	18,312	0	(3)	0	18,312

- (1) We entered into an indefinite employment agreement with Jiancong Huang. 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 \$85,066).
- (2) We entered into an employment agreement with Shaochai Yang. Pursuant to the agreement, Ms. Yang accepted the position of Chief Financial Officer and agreed to pay Ms. Yang an annual salary of RMB 234,000 (approximately \$33,176). We also issued 50,000 ordinary shares in June 2022 and 30,000 ordinary shares in March 2023 to Ms. Yang pursuant to our 2021 Stock Incentive Plan. See “- Equity Incentive Plan.” On July 20, 2023, Ms. Shaochai Yang tendered her resignation as the Chief Financial Officer of the Company.
- (3) Xiaofen Jin was appointed the Chief Financial Officer of the Company on July 21, 2023. We entered into an employment agreement with Xiaofen Jin. Pursuant to the agreement, Ms. Jin has accepted the position of Chief Financial Officer and we have agreed to pay Ms. Jin an annual salary of RMB 198,000 (approximately \$28,072).
- (4) 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 \$17,013).

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.

Equity Incentive Plan

In March 2021, the Company adopted the 2021 equity incentive plan (the “2021 Stock 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.

The following table summarizes, as of the date of this annual report, the number of the stock awards granted under the 2021 Stock Incentive Plan to our directors and executive officers.

Name	Number of Shares	Date of Issuance
		50,000 shares were issued on June 15, 2022 and, 30,000 shares were issued on March 15, 2023
Shaochai Yang	80,000	15, 2023
Di Chen	30,000	June 15, 2022

As of the date of this annual report, other grantees under the 2021 Stock Incentive Plan as a group held awards representing 4,007,000 ordinary shares.

6.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 Xiaofen Jin 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 and Human Resources 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:** Hedong Xu (Chair), Linge Zhou, Lie Cao
- **Compensation Committee:** Hedong Xu (Chair), Linge Zhou, Lie Cao
- **Nomination Committee:** Lie Cao (Chair), Hedong Xu, Linge Zhou

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- **Governance and Human Resources Committee Committee:** Linge Zhou (Chair), Lie Cao, Hedong Xu
- **Enterprise Risk Oversight Committee:** Jiancong Huang (Chair), Lie Cao, Hedong Xu, 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 and Human Resources Committee

The Governance and Human Resources 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 and Human Resources 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 and Human Resources 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.

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).

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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.

Board Diversity Matrix

This table below provides certain information regarding the diversity of our Board as of the date of this annual report.

Board Diversity Matrix				
Country of Principal Executive Offices	China			
Foreign Private Issuer	Yes			
Disclosure Prohibited Under Home Country Law	No			
Total Number of Directors	5			
	Female	Male	Non-Binary	Did Not Disclose Gender
Part I: Gender Identity				
Directors	2	3	—	—
Part II: Demographic Background				
Underrepresented Individual in Home Country Jurisdiction				—
LGBTQ+				—
Did Not Disclose Demographic Background				—

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.

6.D. Employees

As of September 30, 2023, we employed a total of 282 employees, including 7 within management, 50 within the Research and Development Department, 159 within the Production Department, 32 within the Sales Department and 34 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. 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. As of September 30, 2023, we are making contribution to the Housing Pension for 12 employees.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major Shareholders

The following table sets forth information with respect to beneficial ownership of our Ordinary Shares as of the date of this annual report 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.

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The number and percentage of Ordinary Shares beneficially owned are based on 36,147,625 Ordinary Shares issued and outstanding as of the date of this annual report. 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 the date of this annual report 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 the date of this annual report, we have 140 shareholders of record.

Named Executive Officers and Directors	Amount of Beneficial Ownership ⁽¹⁾	Percentage Ownership ⁽²⁾
Directors and Named Executive Officers:		
Jiancong Huang, Chief Executive Officer and Chairman (3) (4)	8,644,875	23.92 %
Xiaofen Jin, Chief Financial Officer	0	— %
Di Chen, Secretary	30,000	0.08 %
Guolin Wang, Director (4)	1,800,000	4.98 %
Hedong Xu, Director	0	— %
Lie Cao, Director	0	— %
Linge Zhou, Director	0	— %
All directors and executive officers as a group (7 persons)	8,674,875	24.00 %
5% Beneficial Owners:		
Mingjie Wang (4)	1,800,000	4.98 %

(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 36,147,625 ordinary shares issued and outstanding as of the date of this annual report.

(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.

7.B. Related Party Transactions

NOTE 11 – RELATED PARTY TRANSACTIONS

Net amounts due to related parties consisted of the following as of September 30, 2023 and 2022:

Accounts	Name of related parties	As of September 30,	
		2023	2022
Related party payables	Shareholder, HUANG Jian Cong	\$ 1,017,701	\$ 1,963,527
Related party payables	Other Affiliates of the Company	93,300	88,876

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, 2023 and 2022, the Company had outstanding loans with total amount of \$1,017,701 and \$1,963,527 from its shareholder, HUANG Jian Cong.

7.C. Interests of experts and counsel

Not applicable for annual reports on Form 20-F.

ITEM 8. FINANCIAL INFORMATION

8.A. Consolidated Statements and Other Financial Information

Please refer to Item 18.

Litigations

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, 2023, 2022 and 2021, the outstanding balance is RMB 4.4 million (USD 0.60 million), RMB 4.4 million (USD 0.62million), and RMB 4.4 million (USD 0.68million), respectively.

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, however due to the illiquidity of real estate market and recent real estate market recession, the Company has written off the balance and recorded bad debt charge of \$623,821. 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, 2023, 2022, and 2021 and the results of operations or cash flows for the years ended September 30, 2023, 2022, and 2021.

Administrative Proceedings

Nasdaq Listing Rule 5450(a)(1)

On October 13, 2022, the Company received written notice from the Listing Qualifications Department (the “Staff”) of the Nasdaq Stock Market, LLC (“Nasdaq”) notifying the Company that, based on the closing bid price of the Company’s ordinary shares for the last 30 consecutive trading days, the Company was no longer in compliance with the minimum bid price requirement for continued listing on the Nasdaq Capital Market. Nasdaq Listing Rule 5550(a)(2) requires listed securities to maintain a minimum bid price of \$1.00 per share (the “Minimum Bid Price Requirement”), and Nasdaq Listing Rule 5810(c)(3)(A) provides that a failure to meet the Minimum Bid Price Requirement exists if the deficiency continues for a period of 30 consecutive trading days.

On April 12, 2023, the Company received a written notice from Nasdaq stating that, although the Company had not regained compliance with the minimum bid price requirement by April 11, 2023, in accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company is eligible for an additional 180 calendar day period, or until October 9, 2023, to regain compliance with Nasdaq Listing Rule 5550(a)(2). To regain compliance, the closing bid price of the Company’s common stock must meet or exceed \$1.00 per share for a minimum of ten consecutive business days during this 180-day period.

On October 10, 2023, the Company received written notice from Nasdaq that, based upon the Company’s non-compliance with the \$1.00 bid price requirement set forth in Nasdaq Listing Rule 5550(a)(2) as of October 10, 2023, the Company’s securities were subject to delisting unless the Company timely requests a hearing before the Nasdaq Hearings Panel (the “Panel”).

On November 15, 2023, the Company announced that the Panel has granted the Company a temporary exception, enabling it to regain compliance with the Minimum Bid Price Requirement.

On December 21, 2023, the Staff notified the Company that because Nasdaq has determined that for 10 consecutive business days, from December 6, 2023 through December 20, 2023, the closing bid price of the Company’s ordinary shares has been at \$1.00 per share or greater, the Company has regained compliance with the Minimum Bid Price Requirement and the matter is closed.

On February 15, 2024, the Company received written notice from Nasdaq notifying the Company that, based on the closing bid price of the Company’s ordinary shares for the last 30 consecutive trading days, the Company was no longer in compliance with the Minimum Bid Price Requirement for continued listing on the Nasdaq Capital Market.

Pursuant to the Nasdaq Listing Rules, the Company has been provided an initial compliance period of 180 calendar days to regain compliance with the Minimum Bid Price Requirement. To regain compliance, the closing bid price of the Ordinary Shares must be at least \$1.00 per share for a minimum of 10 consecutive trading days prior to August 13, 2024, and the Company must otherwise satisfy The Nasdaq Capital Market’s requirements for listing.

If the Company does not regain compliance by August 13, 2024, the Company may be eligible for an additional 180 calendar day compliance period. To qualify, the Company would be required, among other things, to meet the continued listing requirement for market value of publicly held shares, which the Company does not currently meet, as well as all other standards for initial listing on the Nasdaq Capital Market, with the exception of the Minimum Bid Price Requirement, and would need to provide written notice of its intention to cure the bid price deficiency during the second compliance period. If the Company does not regain compliance within the allotted compliance period(s), including any extensions that may be granted by Nasdaq, Nasdaq will provide notice that the Company’s Ordinary Shares will be subject to delisting. The Company would then be entitled to appeal Nasdaq’s determination to a Nasdaq Listing Qualifications Panel and request a hearing.

The Company intends to monitor the closing bid price of the Ordinary Shares and consider its available options to resolve the noncompliance with the Minimum Bid Price Requirement. There can be no assurance that the Company will be able to regain compliance with the Nasdaq Capital Market’s continued listing requirements or that Nasdaq will grant the Company a further extension of time to regain compliance, if applicable.

Nasdaq Listing Rule 5250(c)(1)

On February 20, 2024, the Company received a written notice from the Nasdaq, notifying the Company that, since the Company has not yet filed its annual report on Form 20-F for the year ended September 30, 2023, it no longer complies with Nasdaq Listing Rules for continued listing under Listing Rule 5250(c)(1).

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Under Nasdaq Listing Rules, the Company has 60 calendar days to submit a plan of compliance to Nasdaq. The Company timely submitted a plan of compliance to Nasdaq and on April 29, 2024, the Company received a letter from Nasdaq notifying it that Nasdaq granted the Company an exception to enable it to regain compliance with the Rule (the “Exception”). Pursuant to the Exception, the Company must file its Form 20-F for the period ended September 30, 2023 on or before June 7, 2024. Upon a subsequent request, Nasdaq has provided a further extension through August 13, 2024. In the event the Company does not satisfy these terms, Nasdaq will provide written notification that the securities of the Company will be delisted. At that time, the Company may appeal Nasdaq’s determination to a Nasdaq Listing Qualifications Panel and request a hearing.

On August 12, 2024, the Company filed this annual report on Form 20-F for the year ended September 30, 2023.

Cash Transfers Between Our Company and Our Subsidiaries

During the fiscal year ended September 30, 2023, 2022 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, 2022, ZK International transferred a total of \$4,139,100 to Zhejiang Zhengkang Industrial Co. for business operation purposes.

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.

8.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

9.A. Offer and listing details

Not applicable for annual reports on Form 20-F.

9.B. Plan of distribution

Not applicable for annual reports on Form 20-F.

9.C. Markets

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

9.D. Selling shareholders

Not applicable for annual reports on Form 20-F.

9.E. Dilution

Not applicable for annual reports on Form 20-F.

9.F. Expenses of the issue

Not applicable for annual reports on Form 20-F.

ITEM 10. ADDITIONAL INFORMATION

10.A. Share capital

Not applicable for annual reports on Form 20-F.

10.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 unlimited ordinary shares with no par value. As of the date of this annual report, there were 36,147,625 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 not 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.

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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.

10. 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.

10. 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 subsidiaries 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.

10.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.

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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.

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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, 2023. Our actual PFIC status for the current taxable year ending September 30, 2023 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.

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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.

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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.

10.F. Dividends and paying agents

Not applicable for annual reports on Form 20-F.

10.G. Statement by experts

Not applicable for annual reports on Form 20-F.

10.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.

10.I. Subsidiary Information

Not applicable.

10.J. Annual Report to Security Holders

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, 2023 and 2022, we had borrowings with fixed interest rates and therefore we were exposed to fair value interest rate risk.

As of September 30, 2023 and 2022 we had no long-term interest-bearing assets.

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, 2023 and 2022, \$4,946,127 and \$7,363,557, 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

12.A. Debt Securities

Not applicable.

12.B. Warrants and Rights

Not applicable.

12.C. Other Securities

Not applicable.

12.D. American Depositary Shares

Not applicable.

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 and Use of Proceeds

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, 2023, 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, 2023, 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, 2023. 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, 2023, 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, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Company's board of directors has determined that Hedong Xu 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. 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, 2022 and 2021. Audit services provided by ZH CPA, LLC for fiscal years ended September 30, 2022 and 2021 included the examination of the consolidated financial statements of the Company, and services related to periodic filings made with the SEC.

On June 4, 2024, ZH CPA, LLC notified the Company its decision to resign as the Company's auditor. The Audit Committee and the Board of Directors of the Company ratified the appointment of Fortune CPA, Inc. as its new independent registered public accounting firm to audit the Company's financial statements for the fiscal year ended September 30, 2023, effective on June 2, 2024. See "Item 16F. Change In Registrant's Certifying Accountant".

Fortune CPA, Inc. was appointed by the Company to serve as its independent registered public accounting firm for fiscal year ended September 30, 2023. Audit services provided by Fortune CPA, Inc. for fiscal years ended September 30, 2023 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 2022 and 2021 was \$180,000, and \$180,000, respectively, excluding travel and other out-of-pocket expenses.

Audit-Related Fees

Fortune CPA, Inc. did not provide audit related service during the fiscal year ended September 30, 2023.

ZH CPA, LLC did not provide audit related service during the fiscal years ended September 30, 2022 and 2021.

Tax Fees

Fortune CPA, Inc. did not provide tax services for the fiscal year ended September 30, 2023.

ZH CPA, LLC did not provide tax services for the fiscal years ended September 30, 2022 and 2021.

All Other Fees

The Company did not paid Fortune CPA, Inc. for any other services in fiscal year ended September 30, 2023.

The Company did not paid ZH CPA, LLC for any other services in the fiscal years ended September 30, 2022 and 2021.

Audit Committee Pre-Approval Policies

Before each of Fortune CPA, Inc. and 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 Fortune CPA, Inc. and 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 2023 that were attributed to work performed by persons other than Fortune CPA, Inc.'s full-time permanent employees was nil.

The percentage of hours expended on the principal accountants' engagement to audit our consolidated financial statements for 2022 and 2021 that were attributed to work performed by persons other than ZH CPA, LLC's full-time permanent employees was nil and nil, respectively.

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, 2023.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

On June 4, 2024, ZH CPA, LLC notified the Company its decision to resign as the Company's auditor. The decision to change the independent registered public accounting firm was recommended and approved by the Audit Committee and the Board of Directors of the Company. During the Company's two most recent fiscal years ended September 30, 2023 and 2022 and any subsequent interim periods through June 4, 2024, the date of dismissal, (a) there were no disagreements between the Company and ZH CPA, LLC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of ZH CPA, LLC, would have caused it to make reference thereto in its reports on the financial statements for such years and (b) there were no "reportable events" as described in Item 304(a)(1)(v) of Regulation S-K.

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The Audit Committee and the Board of Directors of the Company ratified the appointment of Fortune CPA, Inc. as its new independent registered public accounting firm to audit the Company's financial statements for the fiscal year ended September 30, 2023, effective on June 2, 2024. During the two most recent fiscal years ended September 30, 2023 and 2022 and any subsequent interim periods through June 2, 2024, the date of the engagement of Fortune CPA, Inc., neither the Company, nor someone on its behalf, has consulted Fortune CPA, Inc. regarding:

- (i) either: the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's consolidated financial statements, and either a written report was provided to the Company or oral advice was provided that the new independent registered public accounting firm concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or
- (ii) any matter that was either the subject of a disagreement as defined in paragraph 304(a)(1)(iv) of Regulation S-K or a reportable event as described in paragraph 304(a)(1)(v) of Regulation S-K.

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. 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.

During the fiscal year ended September 30, 2023, 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).

We have elected to be exempt from the Nasdaq Rule 5620 which provides that (with certain exceptions not relevant to the conclusions expressed herein) each company listing common stock or voting preferred stock, and their equivalents, shall hold an annual meeting of shareholders no later than one year after the end of the company's fiscal year-end. Such practice is not prohibited by British Virgin Islands law.

We may in the future decide to use the foreign private issuer exemption with respect to 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."

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

For the immediately preceding annual financial statement period, our auditor, which is a registered public accounting firm that the PCAOB was unable to inspect or investigate completely because of a position taken by the PRC government, issued our audit report that was included in our Form 20-F for the fiscal year ended September 30, 2023.

On December 15, 2022, the PCAOB removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report.

However, if the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong, and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the Securities and Exchange Commission, we and investors in our ordinary shares would be deprived of the benefits of such PCAOB inspections again, which could cause investors and potential investors in the ordinary shares to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

As of the date of this annual report and to our best knowledge:

- (i) none of our or our subsidiaries' shares are owned by governmental entities in the jurisdiction in which we are incorporated or otherwise organized;
- (ii) none of the governmental entities in the applicable foreign jurisdiction with respect to our registered public accounting firm have a controlling financial interest in us or our subsidiaries;
- (iii) none of the members of our board of directors or the board of directors of our operating entity, including our subsidiaries, is an official of the Chinese Communist Party; and
- (iv) none of our amended and restated memorandum and articles of association or our subsidiaries' charter documents contain any charter of the Chinese Communist Party.

ITEM 16.J. INSIDER TRADING POLICIES

We have adopted insider trading policies governing the purchase, sale, and other dispositions of our securities by directors, senior management, and employees. A copy of the insider trading policies is attached as an exhibit to this annual report.

ITEM 16.K. CYBERSECURITY

Risk Management and Strategy

As a manufacturer and supplier of a wide range of stainless steel products, we recognize the importance of developing, implementing, and maintaining appropriate and adequate administrative and technical measures to safeguard our information management security systems and protect the confidentiality, integrity, and availability of data. Therefore, we have developed and maintain a comprehensive cybersecurity risk management program that focuses on monitoring, risk mitigation and risk response, in order to ensure the security and safety of our computer systems, networks, cloud services, software, and all data stored therein.

We have implemented protocols to protect against cybersecurity threats and prevent unauthorized access to sensitive data. We conduct regular assessment of the Company's cybersecurity risks and vulnerabilities, by identifying potential threats, assessing the likelihood and potential impact of cyberattacks. We also conduct ongoing evaluation of the industry trends and regulatory environments to ensure we are in full compliance with applicable cybersecurity laws and regulations in all jurisdictions where we operate. We have set in place an efficient risk mitigation and control and incident response protocols to identify potential risks, detect, effectively respond to, and recover from cybersecurity breaches. We also provide regular training programs to our employees to enhance their awareness about cybersecurity risks, and better understand their roles and responsibilities in safeguarding company assets and data.

Overall, we believe that we have established a robust framework to protect against cybersecurity threats, mitigate risks, preserve customer trust and reputation, and support the sustainable growth of our Company.

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

Exhibit No.	Description of Exhibit
1.1	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)
2.1	Form of Debenture (Exhibit 10.2 to the Form 6-K furnished on October 20, 2020 and is incorporated herein by reference)
2.2	Form of Warrant (Exhibit 4.1 to the Form 6-K furnished on February 23, 2021 and is incorporated herein by reference)
2.3	Form of Warrant (Exhibit 4.2 to the Form 6-K furnished on February 23, 2021 and is incorporated herein by reference)
2.4	2021 Equity Incentive Plan (Exhibit 10.1 to the Form 6-K furnished on March 31, 2021 and is incorporated herein by reference)
2.5	Form of Debenture (Exhibit 4.1 to the Form 6-K furnished on August 27, 2021 and is incorporated herein by reference)
2.6*	Description of Securities
3.1	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)
4.1	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)
4.2	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)
4.3	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)
4.4	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)
4.5	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)
4.6	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)
4.7	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)
4.8	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)
4.9	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)
4.10	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)

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4.11	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)
4.12	Employment Agreement between ZK International Group Co., Ltd. and Xiaofen Jin, dated July 21, 2023 (Exhibit 4.1 to the Form 6-K furnished on July 26, 2023 and is incorporated herein by reference)
4.13	Settlement Agreement, dated November 27, 2023 (Exhibit 10.1 to the Form 6-K furnished on December 1, 2023 and is incorporated herein by reference)
4.14	Form of the Securities Purchase Agreement (Exhibit 10.1 to the Form 6-K furnished on December 1, 2023 and is incorporated herein by reference)
4.15	Form of Securities Agreement (Exhibit 99.2 to the Form 6-K furnished on July 23, 2024 and is incorporated herein by reference)
4.16	Form of Registration Rights Agreement (Exhibit 99.3 to the Form 6-K furnished on July 23, 2024 and is incorporated herein by reference)
8.1	List of Subsidiaries of the Registrant (Exhibit 8.1 to the Form 20-F furnished on January 28, 2022 and is incorporated herein by reference)
11.1	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)
11.2*	Insider Trading Policies
12.1*	Certification of Chief Executive Officer Required by Rule 13a-14(a)
12.2*	Certification of Chief Financial Officer Required by Rule 13a-14(a)
13.1**	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
13.2**	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
97.1*	Executive Compensation Recovery Policy
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.

* Filed herewith

* Furnished herewith

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: August 12, 2024

ZK INTERNATIONAL GROUP CO., LTD.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
ZK International Group Co., Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of ZK International Group Co., Ltd. (“the Company”) as of September 30, 2023, and the related consolidated statements of operations and comprehensive loss, changes in shareholders’ equity, and cash flows for the year then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2023, and the results of its operations and its cash flows for the year ended September 30, 2023, in conformity with accounting principles generally accepted in the United States of America.

The Company’s Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has negative working capital, negative cash flow from operating activities, and accumulated deficit that raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit. 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 audit 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 audit, 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 entity’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit 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 audit 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 audit provides a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Going Concern

As described further in Note 2 to the consolidated financial statements, the Company has incurred loss during September 30, 2023, Company has negative cash flow from operating activities, and accumulated deficit that raise substantial doubt about its ability to continue as a going concern.

We determined the Company's ability to continue as a going concern is a critical audit matter due to the estimation and uncertainty regarding the Company's future cash flows and the risk of bias in management's judgments and assumptions in estimating these cash flows.

Our audit procedures related to the Company's assertion on its ability to continue as a going concern included the following, among others:

We reviewed the Company's working capital and liquidity ratios, operating expenses, and uses and sources of cash used in management's assessment of whether the Company has sufficient liquidity to fund operations for at least one year from the financial statement issuance date. This testing included inquiries with management, the Company's financing arrangements in place as of the report date, market and industry factors and consideration of the Company's relationships with its financing partners.

/s/ Fortune CPA, Inc

We have served as the Company's auditor since 2024.

Orange, CA

August 12, 2024
PCAOB # 6901



CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Stockholders and Board of Directors of
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, 2022 and 2021 and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders’ equity, and cash flows for each of the three years in the period ended September 30, 2022, and the related notes (collectively referred to as the “consolidated 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, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there were no critical audit matters.

/s/ZH CPA, LLC

We have served as the Company’s auditor since 2017
Denver, Colorado
January 31, 2023

999 18th Street, Suite 3000, 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,	
	2023	2022
Assets		
Current assets		
Cash and cash equivalents	\$ 4,994,411	\$ 7,515,147
Restricted cash	50,995	101,992
Short-term Investment	48,145	915,616
Accounts receivable, net of allowance for doubtful accounts and provision for expected credit loss of \$6,617,485 and \$255,322, respectively	14,967,186	28,362,933
Notes receivable	54,825	49,611
Prepayment, deposit and other receivable - current	383,413	2,360,539
Inventories	17,937,425	21,141,501
Advance to suppliers	4,810,044	6,322,592
Total current assets	43,246,444	66,769,931
Property, plant and equipment, net	7,836,017	7,124,587
Right-of-use asset – Operating lease	43,840	30,998
Intangible assets, net	1,437,384	11,415,451
Deferred tax assets	—	320,164
Prepayment, deposit and other receivable - Non-current	292,070	—
Long-term prepayment	—	10,447,395
Long-term accounts receivable	5,527,682	7,522,188
Long-term investment	285,540	25,292,866
TOTAL ASSETS	\$ 58,668,977	\$ 128,923,580
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,611,220	\$ 10,066,758
Accrued expenses and other current liabilities	4,964,893	6,949,772
Operating lease liability - current	21,749	10,754
Accrued payroll and welfare	1,918,415	1,880,377
Advance from customers	821,694	1,758,800
Due to related parties	1,111,001	2,052,403
Convertible debentures	4,011,224	3,352,311
Bank borrowings - current	9,388,706	16,257,820
Notes payables	41,118	702,889
Income tax payable	669	817,059
Total current liabilities	24,890,689	43,848,943
Operating lease liability – non-current	11,811	10,256
Bank borrowings – non-current	8,527,686	—
TOTAL LIABILITIES	\$ 33,430,186	\$ 43,859,199
COMMITMENTS AND CONTINGENCIES		
	—	—
Equity		
Common stock, no par value, 50,000,000 shares authorized, 32,992,740 and 30,392,940 shares issued and outstanding, respectively	72,886,898	70,872,765
Additional paid-in capital	3,176,556	3,176,556
Statutory surplus reserve	—	—
Subscription receivable	(125,000)	(125,000)
Retained earnings (Deficits)	(47,666,657)	13,394,137
Accumulated other comprehensive loss	(3,190,985)	(2,640,753)
Total equity attributable to ZK International Group Co., Ltd.	25,080,812	84,677,705
Equity attributable to non-controlling interests	157,980	386,676
Total equity	25,238,792	85,064,381
TOTAL LIABILITIES AND EQUITY	\$ 58,668,977	\$ 128,923,580

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,		
	2023	2022	2021
Revenues	\$ 111,599,686	\$ 102,391,636	\$ 99,407,217
Cost of sales	(110,303,270)	(94,796,037)	(92,936,029)
Gross profit	1,296,416	7,595,599	6,471,188
Operating expenses:			
Selling and marketing expenses	2,117,810	2,380,429	3,117,906
General and administrative expenses	5,144,340	5,421,575	5,772,710
Asset impairment loss	53,203,517	2,771,019	—
Research and development costs	1,274,337	987,186	1,234,161
Total operating expenses	61,740,004	11,560,209	10,124,777
Operating loss	(60,443,588)	(3,964,610)	(3,653,589)
Other income (expenses):			
Interest expenses	(1,583,734)	(3,451,665)	(1,196,648)
Interest income	36,699	109,290	13,733
Income on investment	—	—	50,649
Other income (expense), net	240,378	(88,125)	431,438
Total other expenses, net	(1,306,657)	(3,430,500)	(700,828)
Loss before income taxes	(61,750,245)	(7,395,110)	(4,354,417)
Income tax recovery	459,855	1,340,844	552,146
Net loss	\$ (61,290,390)	\$ (6,054,266)	\$ (3,802,271)
Net (loss) income attributable to non-controlling interests	229,596	(27,147)	2,757
Net loss attributable to ZK International Group Co., Ltd.	(61,060,794)	(6,081,413)	\$ (3,799,514)
Net loss	(61,290,390)	\$ (6,054,266)	\$ (3,802,271)
Other comprehensive income (loss):			
Foreign currency translation adjustment	(549,332)	(5,504,385)	2,423,439
Total comprehensive loss	\$ (61,839,722)	\$ (11,558,651)	\$ (1,378,832)
Comprehensive loss (income) attributable to non-controlling interests	228,696	(62,109)	(14,773)
Comprehensive loss attributable to ZK International Group Co., Ltd.	\$ (61,611,026)	\$ (11,620,760)	\$ (1,393,605)
Basic and diluted loss per share			
Basic	\$ (1.94)	\$ (0.21)	\$ (0.17)
Diluted	(1.94)	(0.21)	(0.17)
Weighted average number of shares outstanding			
Basic	31,445,962	29,305,828	21,873,594
Diluted	31,445,962	29,431,781	22,633,819

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, 2023, 2022 AND 2021
(IN U.S. DOLLARS, EXCEPT SHARE DATA)

	Shares	Additional paid-in capital	Subscription Receivable	Statutory surplus reserve	Retained earnings (deficits)	Accumulated other comprehensive income (loss)	Non- controlling interests	Total equity
Balance at September 30, 2020	16,558,037	18,049,630	—	2,904,699	23,546,921	492,685	309,794	45,303,729
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 loss				9,903	(3,809,417)		(2,757)	(3,802,271)
Balance at September 30, 2021	28,918,177	63,374,085	(125,000)	2,914,602	19,737,504	2,898,594	324,567	89,124,352
Stock incentive issuance	1,407,200	1,688,640						1,688,640
Stock issued in connection with conversion of convertible notes	67,563	116,781						116,781
Fair value change due to convertible notes extension		678,782						678,782
Stock-based compensation		5,603,615						5,603,615
Unearned Compensation		(589,138)						(589,138)
Foreign currency translations						(5,539,347)	34,962	(5,504,385)
Net loss				261,954	(6,343,367)		27,147	(6,054,266)
Balance at September 30, 2022	30,392,940	70,872,765	(125,000)	3,176,556	13,394,137	(2,640,753)	386,676	85,064,381
Stock-based compensation	2,599,800	1,839,733						1,839,733
Unearned Compensation		174,400						174,400
Foreign currency translations						(550,232)	900	(549,332)
Net loss					(61,060,794)		(229,596)	(61,290,390)
Balance at September 30, 2023	32,992,740	72,886,898	(125,000)	3,176,556	(47,666,657)	(3,190,985)	157,980	25,238,792

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,		
	2023	2022	2021
Cash Flows from Operating Activities:			
Net loss	\$ (61,290,390)	\$ (6,054,266)	\$ (3,802,271)
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation expense	677,275	672,368	568,038
Amortization expense	298,431	830,481	481,763
Right of use assets	—	—	(53,634)
Bad debt expense and credit loss	17,897,334	227,837	92,032
Write-off of advance to suppliers	—	—	108,395
Deferred tax expenses	322,897	—	406,064
Gain on accounts receivable factoring, net of discount	—	(1,602,500)	—
Impairment on intangible assets and long-term investment	35,346,769	2,771,019	—
Change in unrecognized tax benefits	(823,340)	(1,428,458)	(918,038)
Stock compensation expense	2,014,133	2,674,807	1,351,082
Interest expense of convertible notes	658,913	1,324,510	210,173
Interest expense of financing lease	—	—	44,458
Interest expense of accounts receivable factoring	359,051	1,151,453	—
Changes in operating assets and liabilities:			
Accounts receivable	8,165,567	(12,059,620)	5,804,654
Other receivables and prepayments	349,612	(260,755)	1,345,520
Notes receivable	(6,676)	(53,853)	201,187
Inventories	2,870,541	(2,606,504)	2,021,789
Advance to suppliers	1,401,001	5,493,624	(8,297,301)
Accounts payable	(7,451,608)	8,803,924	(8,662,576)
Notes payable	(666,355)	762,986	(159,823)
Accrued expenses and other current liabilities	(1,918,915)	752,241	2,428,410
Accrued payroll and welfare	130,063	219,178	211,632
Advance from customers	(923,844)	(3,662,097)	3,162,961
Income tax payable	—	—	(77,214)
Long-term prepaid expenses	707,470	—	—
Lease liability - Operating lease	(23,841)	(28,595)	53,635
Net cash used in operating activities	<u>(1,905,912)</u>	<u>(2,072,220)</u>	<u>(3,479,064)</u>
Cash Flows from Investing Activities:			
Purchases of property, plant and equipment	(656,178)	(507,663)	(114,319)
Purchase of CIP	(930,814)	(12,666)	(47,942)
Purchases of intangible assets	(707,470)	(1,588,107)	(1,983,812)
Investment into CG Malta	—	—	(25,000,000)
Net cash used in investing activities	<u>(2,294,462)</u>	<u>(2,108,436)</u>	<u>(27,146,073)</u>
Cash Flows from Financing activities:			
Net proceeds released from (placed into) short-term investment	852,542	1,523,953	(2,228,301)
Proceeds from short-term bank borrowings	21,486,396	31,113,044	31,203,129
Repayments of short-term bank borrowings	(19,350,091)	(34,501,465)	(28,144,978)
Net (repayment) receiving for due to related parties	(920,690)	1,173,516	(280,313)
Repayment of other borrowing	—	(279,004)	(483,458)
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>2,068,157</u>	<u>(969,956)</u>	<u>40,241,501</u>
Effect of exchange rate changes on cash	(439,515)	(835,453)	227,305
Net (decrease) increase in cash, cash equivalents and restricted cash	(2,571,733)	(5,986,065)	9,843,669
Cash and cash equivalents and restricted cash at the beginning of period	7,617,139	13,603,204	3,759,535
Cash, cash equivalents and restricted cash at the end of period	<u>\$ 5,045,406</u>	<u>\$ 7,617,139</u>	<u>\$ 13,603,204</u>
Supplemental disclosures of cash flows information:			
Cash paid for income taxes	\$ 38,695	\$ 87,473	\$ 37,041
Cash paid for interest expenses	\$ 774,929	\$ 976,091	\$ 338,575
Non-cash transactions			
Offset between due from related parties and due to related parties balances	\$ 545,844	623,363	604,719
Intangible assets obtained in exchange for settlement of long-term deposit	\$ 707,470	749,252	—

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 unlimited number of ordinary shares, with no par value. 32,992,740 shares were issued and outstanding as of September 30, 2023. 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, 2023, 20.20% 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 14.75% and WANG Guo Lin holding 5.46%.

ZK Pipe Industry Co., Ltd. (“ZK Pipe”)

ZK Pipe was incorporated on May 28, 2015 in Hong Kong. The registered capital is HKD 1,000,000 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, 2023.

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, 2023.

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 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, 2023.

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, 2023.

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 RMB 30,000,000, 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 RMB 100,000,000, 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, steel strip and nickel materials.

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, 2023.

Hongyun (Wenzhou) Global Trading Limited. (“Hongyun”)

Hongyun was incorporated on November 15, 2021 in Wenzhou under the laws of the People’s Republic of China. The registered capital is RMB 2,880,000 and the paid-in capital was zero as of September 30, 2023. The principal activities of Hongyun is trading of nickel materials.

Wenzhou Suona Piping Limited. (“Suona”)

Suona was incorporated on October 29, 2021 in Wenzhou under the laws of the People’s Republic of China and is a 99% owned subsidiary of Wenzhou Weijia. The registered capital is RMB 10,000,000 and the paid-in capital was zero as of September 30, 2023. The principal activities of Suona is trading of nickel materials.

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, 2023. 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, 2023. 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, 2023. 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.

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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, 2023. xSigma Trading is a holding entity and is currently not engaging in any business. The entity has not commenced operation as of September 30, 2023.

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 State of America. All inter-company transactions and balances have been eliminated upon consolidation.

Entity Name	Registered Location	Background	Ownership as of the issuance date of the report
ZK International	BVI	<ul style="list-style-type: none"> Incorporated on May 13, 2015 Registered capital of USD 50,000, not paid A holding company with no operation activities itself for the years then ended 	16.01% by HUANG Jian Cong 5.92% by WANG Guo Lin
ZK Pipe	Hong Kong	<ul style="list-style-type: none"> Incorporated on May 28, 2015 Registered capital of HKD 1,000,000, not paid Have not commenced operations 	100% by ZK International
Wenzhou Weijia	Wenzhou	<ul style="list-style-type: none"> Incorporated on June 17, 2015 Registered capital of USD 20,000,000, not paid Have not commenced operations 	100% by ZK Pipe
Zhejiang Zhengkang	Wenzhou	<ul style="list-style-type: none"> Incorporated on December 4, 2001 Registered capital of RMB 100,000,000, RMB 30,000,000 paid Principally operated in manufacturing and sales of steel strip, steel pipe and fittings 	99% by Wenzhou Weijia 1% by HUANG Jian Cong
Wenzhou Zhengfeng	Wenzhou	<ul style="list-style-type: none"> Incorporated on December 24, 1999 Registered capital of RMB 2,880,000, fully paid Principally operated in trading of steel strip, mainly purchased from Zhejiang Zhengkang 	100% by Zhejiang Zhengkang
ZK Uganda	Uganda	<ul style="list-style-type: none"> Incorporated on March 23, 2018 Registered capital of 20 Million Uganda Shillings, not paid. 	80% by ZK International
Hongyun	Wenzhou	<ul style="list-style-type: none"> Incorporated on November 15, 2021 Registered capital of RMB 1,880,000, not paid 	100% by Wenzhou Weijia
Suona	Wenzhou	<ul style="list-style-type: none"> Incorporated on October 29, 2021 Registered capital of RMB 10,000,000, not paid 	99% by Wenzhou Weijia
xSigma Corporation	BVI	<ul style="list-style-type: none"> Incorporated on January 18, 2018 Registered capital of USD 50,000, not paid Have not commenced operations 	51% by ZK International
xSigma Collectibles Limited	BVI	<ul style="list-style-type: none"> Incorporated on July 6, 2021 Registered capital of USD 100, not paid Principally operated in NFT (Non-Fungible Token) marketplace 	100% by ZK International
xSigma Entertainment Limited	BVI	<ul style="list-style-type: none"> Incorporated on March 17, 2021 Registered capital of USD 50,000, not paid A holding company that holds ownership in CG Malta, a sports betting and casino operator 	100% by ZK International
xSigma Trading LLC	Delaware, United States	<ul style="list-style-type: none"> Incorporated on June 7, 2021 Registered capital and paid in capital was zero Have not commenced operations 	100% by xSigma Corporation

Going Concern Consideration

The consolidated financial statements for the years ended September 30, 2023 and 2022 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

As reflected in the consolidated financial statements, the Company has incurred net losses of \$61,507,395, \$6,054,266 and \$3,802,271 for the years ended September 30, 2023, 2022 and 2021, respectively. The Company had accumulated deficits amounted to 47,881,492 as of September 30, 2023. Net cash used in operating activities was 2,122,917 for the year ended September 30, 2023. These conditions raised substantial doubts about the Company's ability to continue as a going concern.

The Company meets its day-to-day working capital requirements through its bank facilities. Most of the bank borrowings as of September 30, 2023, that are repayable within the next 12 months, are subject to renewal, and the management is confident that these borrowings can be renewed upon expiration based on the Company's past experience and credit history. In addition, the Company had a positive working capital of \$18,376,141 as of September 30, 2023.

In order to strengthen the Company's liquidity in the foreseeable future, the Company has taken the following measures:

- (i) Negotiating with banks in advance for renewal and obtaining new banking facilities;
- (ii) Taking various cost control measures to tighten the costs of operations; and
- (iii) Implementing various strategies to enhance sales and profitability.

However, there can be no assurance that these plans and arrangements will be sufficient to fund the Company's ongoing capital expenditure, working capital, and other requirements. The accompanying consolidated financial statements do not include any adjustments related to the recoverability or classification of asset and the amounts or classification of liabilities that may result from the outcome of this uncertainty. If the going concern assumption is not appropriate, material adjustments to the financial statements could be required.

Measurement of credit losses on financial instruments

On October 1, 2021, the Company adopted ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326) — Measurement of Credit Losses on Financial Instruments," for financial assets stated at amortized cost including accounts receivable, refundable deposits, prepayments and other receivables. This guidance replaced the "incurred loss" impairment methodology with an approach based on "expected losses" to estimate credit losses on certain types of financial instruments and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance requires financial assets to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the cost of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset.

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, expected credit loss of accounts receivable, inventory valuation, useful life of property, plant and equipment, intangible asset impairment, allowances of long-term prepayment, long-term investment impairment, 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.

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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		
	2023	2022	2021
Period Ended RMB: USD exchange rate	7.2960	7.1135	6.4434
Period Average RMB: USD exchange rate	7.0533	6.5532	6.5072

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, and term deposits, in commercial banks with original maturities of more than 90 day but less than one year. As of September 30, 2023, the Company has short-term investment of \$68,531, while it had \$915,616 short-term investment as of September 30, 2022.

Long-term Deposit/Prepayment

Long-term deposit as of September 30, 2021 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 Target Company A and \$938,945 to Target Company B. 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.

During the fiscal year ended September 30, 2022, the two proposed acquisitions were terminated and pursuant to the agreements with the Target Companies, the Company will acquire certain patents owned by the Target Companies. As of September 30, 2022, the Company has entered into the termination agreement with Company B which settled the majority of the outstanding long-term deposit of Target Company B for one patent with value of RMB 4,910,000 and the remaining RMB 1,140,000 will be settled by providing technical services to the Company which has not yet received and therefore classified as Other Receivable and Prepayment. The Company reached oral agreement with Target Company A to settle all or part of its outstanding long-term deposit by acquiring its patents which has not yet been finalized as of September 30, 2022, and therefore the Company reclassified the outstanding long-term deposit to long-term prepayment with amount of \$10,447,395. Subsequent to the 2022 fiscal yearend, the Company acquired a patent with appraised value of RMB 4,990,000.

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During the fiscal year ended September 30, 2023, the Company and Target Company A agreed on certain research and development arrangements which Target Company A was delegated to conduct certain research and development programs. The arrangements were intended to strengthen the Company's competitive advantage by leveraging the Target Company A's research capabilities. The Company is not obligated to fund the research and development programs but having the right of first refusal to acquire any patent or technical innovation generated out of the programs. Patent or technical innovation, if acquired by the Company, will be appraised and the appraised value will settle all or part of the outstanding long-term deposit. However, during the fiscal year ended September 30, 2023, no patent or technical innovation was materialized, and the Company demanded the payback of the long-term deposit. Due to the uncertainty of collection and prospect of the research programs, the Company has written off approximately of \$9.83 million long-term deposit.

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 Company use a loss rate method to estimate the allowance for credit losses. For those past due balances over one year and other higher risk receivables identified by the Company are reviewed individually for collectability. The Company evaluates the expected credit loss of accounts receivable based on historical collection experience, the financial condition of its customers and assumptions for the future movement of different economic drivers and how these drivers will affect each other. The Company writes off potentially uncollectible accounts receivable against the allowance for credit losses if it is determined that the amounts will not be collected or if a settlement with respect to a disputed receivable is reached for an amount that is less than the carrying value.

The allowance for doubtful accounts recognized as of September 30, 2023 and 2022 was \$6,617,485 and \$255,322, 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, 2023 and 2022 were \$nil and \$102,365, 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.

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, restricted cash, short-term investment, accounts receivable, accounts payable, short-term investment, other current assets, due to related parties, convertible notes, lease liabilities, other liabilities, notes receivable, notes payable, bank borrowings, long-term prepayment, long-term accounts receivable, other receivables and other borrowings, the carrying amounts approximate their fair values due to their short maturities as of September 30, 2023 and 2022. 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 carrying amount of the non-current bank borrowings approximates its fair value due to the fact that the related interest rate approximates the interest rates currently offered by financial institutions for similar debt instruments of comparable maturities.

The Company noted no transfers between levels during any of the periods presented. 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, 2023 and 2022. 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.

Related parties

The Company adopted ASC 850, Related Party Disclosures, for the identification of related parties and disclosure of related party transactions.

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:

	<u>Useful lives</u>
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:

	Useful lives
Land use rights	46 years
Software	5 years
Patent	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.

During fiscal year 2023, the Company incurred impairment charge of \$10,346,769 due to the write off of three software platforms. During fiscal year 2022, the Company incurred impairment charge of \$2,771,019 due to the write off of one software platform. There was no impairment charge recognized for long-lived assets as of September 30, 2021.

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 for the year ended September 30, 2022 and 2021. 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.

ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity, provides simplification of the convertible debt accounting framework by eliminating the cash conversion and the beneficial conversion feature accounting models for convertible debt and convertible preferred stock. The new guidance removes from GAAP separation models for convertible debt that require the convertible debt to be separated into a debt and equity component, unless the conversion feature is required to be bifurcated and accounted for as a derivative or the debt is issued at a substantial premium. ASU 2020-06 requires adoption using either modified retrospective method or full retrospective method. The Company adopted ASU 2020-06 since October 1, 2022.

Under the new framework, the reporting entity will decide the accounting for its convertible notes in the following steps: (1) a reporting entity will first decide whether to elect the fair value option under ASC 825-10 (convertible debt issued with a substantial premium may be ineligible for the fair value option); (2) if the fair value option is not elected, the reporting entity must assess whether the conversion feature requires bifurcation pursuant to ASC 815; (3) if bifurcation is not required, the reporting entity must evaluate whether the convertible debt was issued with a substantial premium; (4) if the fair value option is not elected, the conversion option is not required to be bifurcated, and the convertible debt was not issued with a substantial premium, the convertible debt will be accounted for as a single unit of account under the “traditional convertible security” model. Debt discount is amortized over the period during which the convertible note is expected to be outstanding (through the maturity date) as additional non-cash interest expense.

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.

Cost of revenue:

Cost of revenue consists primarily of cost of materials, direct labors, overhead, and other related incidental expenses that are directly attributable to the Company's principal 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, 2023, 2022 and 2021, \$337,216, \$496,740, and \$446,480, 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. For the fiscal years ended as of September 30, 2023, we have a full valuation allowance of \$2.64 million recorded against our net deferred tax asset, primarily due to our experiencing a three-year cumulative operating loss. This amount will not be released until we have earnings and forecasted income which provide sufficient positive evidence that our deferred tax assets will more likely than 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 (expense) benefits recorded as of September 30, 2023 and 2022 were \$322,897 and \$nil, respectively.

Advertising costs

Advertising costs are expensed as incurred in accordance with ASC 720-35 Other Expense-Advertising costs. Advertising costs were \$19,972, \$77,781, and \$104,661 for years ended September 30, 2023, 2022 and 2021, respectively.

Comprehensive income (loss)

Comprehensive income (loss) includes net income (loss) from foreign currency adjustments. Comprehensive income (loss) is reported in the consolidated statements of operations and comprehensive income. Accumulated other comprehensive income (loss), as presented on the balance sheets are the cumulative foreign currency translation adjustments. As of September 30, 2023 and 2022, the Company recorded accumulated other comprehensive loss balance of \$3,183,694 and \$2,640,753, 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.

Commitments and contingencies

In the normal course of business, the Company is subject to commitments and contingencies, including operating lease and finance lease commitments, legal proceedings and claims arising out of its business that relate to a wide range of matters, such as government investigations and tax matters. The Company recognizes a liability for such contingency if it determines it is probable that a loss will occur, and a reasonable estimate of the loss can be made. The Company may consider many factors in making these assessments on liability for contingencies, including historical and the specific facts and circumstances of each matter.

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 receivables 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 17.

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.

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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.

In December 2023, the FASB issued Accounting Standards Update No. 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures” (“ASU 2023-09”), which modifies the rules on income tax disclosures to require entities to disclose (1) specific categories in the rate reconciliation, (2) the income or loss from continuing operations before income tax expense or benefit (separated between domestic and foreign) and (3) income tax expense or benefit from continuing operations (separated by federal, state and foreign). ASU 2023-09 also requires entities to disclose their income tax payments to international, federal, state and local jurisdictions, among other changes. The guidance is effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. ASU 2023-09 should be applied on a prospective basis, but retrospective application is permitted. The Company is currently evaluating the potential impact of adopting this new guidance on its consolidated financial statements and related disclosures.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of September 30, 2023 and 2022:

	As of September 30,	
	2023	2022
Accounts receivable, gross	\$ 21,584,671	\$ 28,618,255
Less: allowance for doubtful accounts	(6,617,485)	(255,322)
Accounts receivable, net	<u>\$ 14,967,186</u>	<u>\$ 28,362,933</u>

The Company recorded \$6,702,521 and \$227,837 bad debt expense during the year ended September 30, 2023 and 2022, respectively. There was no bad-debt write-off recorded by the Company during the years ended September 30, 2023 and 2022.

Changes of allowance for doubtful accounts for the years ended September 30, 2023 and 2022 are as follow:

	As of September 30,	
	2023	2022
Beginning balance	\$ 255,322	\$ 2,221,870
Additional reserve through bad debt expense	6,366,356	192,298
Reduction due to accounts receivable factoring	—	(2,104,366)
Exchange difference	(4,193)	(54,480)
Ending balance	<u>\$ 6,617,485</u>	<u>\$ 255,322</u>

NOTE 4 – OTHER RECEIVABLES AND PREPAYMENT

Other receivables consisted of mainly the legal claims to be collected from the Company’s debtors, uncollected proceeds due from the disposition of subsidiary, performance bond, and bidding deposits.

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During 2010, the Company 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 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 10.5million 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, 2023 and 2022 the outstanding balance is RMB 4.4 million (USD 0.60 million) and RMB 4.4 million (USD 0.62 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 estate properties seized by the Court worth much more than the debt owed to the Company, however due to the illiquidity of real estate market and recent real estate market recession, the Company has written off the balance and recorded bad debt charge of \$623,821.

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, 2023 and 2022 the outstanding balance is RMB 4.5 million (USD 0.62 million) and RMB 4.5 million (USD 0.63 million), respectively. The Company has written off the balance and recorded bad debt charge of \$637,999 as the Company believes the balance is unlikely to be collectible.

NOTE 5 – INVENTORIES

Inventories as of September 30, 2023 and 2022 consisted of the following:

	As of September 30.	
	2023	2022
Raw materials	\$ 4,551,761	\$ 5,609,999
Work-in-process	6,133,081	8,170,837
Finished goods	7,252,583	7,463,030
Provision for inventory impairment	—	(102,365)
Total	\$ 17,937,425	\$ 21,141,501

As of September 30, 2023 and 2022, the Company pledged no inventory to secure banking facilities granted to the Company, respectively.

Impairment provision of inventories recorded for lower of cost or net realizable value adjustments were \$Nil and \$Nil for the fiscal years ended September 30, 2023 and 2022, respectively.

Inventory amounts recognized into cost of goods sold for the fiscal years ended September 30, 2023 and 2022 were \$7,526,727 and \$9,192,865, respectively.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following as of September 30, 2023 and 2022:

	As of September 30,	
	2023	2022
Buildings	\$ 5,687,114	\$ 5,817,029
Machinery	6,819,033	6,519,759
Furniture, fixtures and equipment	605,776	601,045
Motor vehicles	280,423	236,636
Total property plant and equipment, at cost	13,392,346	13,174,469
Less: accumulated depreciation	(6,456,179)	(6,061,550)
	6,936,167	7,112,919
Construction in progress (“CIP”)	899,850	11,668
Property, plant and equipment, net	\$ 7,836,017	\$ 7,124,587

Depreciation expense was \$677,275 and \$657,320 for the years ended September 30, 2023 and 2022, respectively.

As of September 30, 2023 and 2022, 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 13.

NOTE 7 – INTANGIBLE ASSETS

	As of September 30,	
	2023	2022
Land use rights, cost	\$ 545,689	\$ 559,688
Software, cost	14,417,696	14,418,101
Patent, cost	1,357,341	690,237
Other intangible assets, cost	1,097	1,569
Less: impairment charge	(13,117,788)	(2,771,019)
Less: accumulated amortization	(1,766,651)	(1,483,125)
Intangible assets, net	\$ 1,437,384	\$ 11,415,451

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, 2023 and 2022. The carrying values of the pledged land use rights to secure bank borrowings by the Company are shown in Note 13.

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, 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.

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During 2023 fiscal year, the Company evaluated the recoverability of the three platforms, including Defi Exchange, xSigma Trading, and MaximNFT pursuant to ASC 360-10-35-21 and concluded that the carrying value of the three platforms may not be recoverable as it projects that the platform is likely to have continuing losses and it's more likely than not this platform will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The Company wrote off the carrying value of the platform and recorded a loss of \$10,346,769.

Amortization expense was \$298,431 and \$830,481 for the years ended September 30, 2023 and 2022, respectively.

NOTE 8 - LONG-TERM PREPAYMENT

Long-term prepayment as of September 30, 2022 consists of the cash deposit of RMB 74,317,541 Zhejiang Zhengkang pledged to one entities, which the Company is seeking to acquire certain percentage of ownership of (the "Target Company"). The deposit was used as acquisition deposits required by the Target Company in order to execute their respective acquisition memorandum which details the acquisition and valuation methods but is not legally binding. In the case that the 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.

During the fiscal year ended September 30, 2022, the proposed acquisition was terminated due to the target was acquired by a Chinese State Owned Enterprise, and the Target Company is obligated to return the fund to the Company. The Company reached oral agreement with the Target Company to settle all or part of its outstanding long-term deposit by acquiring its patents which has not yet been finalized as of September 30, 2022, and therefore the Company reclassified the outstanding long-term deposit to long-term prepayment with amount of \$10,447,395. Subsequent to yearend, the Company acquired a patent with appraised value of RMB 4,990,000.

During the fiscal year ended September 30, 2023, the Company and Target Company agreed on certain research and development arrangements which Target Company was delegated to conduct certain research and development programs. The arrangements were intended to strengthen the Company's competitive advantage by leveraging the Target Company's research capabilities. The Company is not obligated to fund the research and development programs but having the right of first refusal to acquire any patent or technical innovation generated out of the programs. Patent or technical innovation, if acquired by the Company, will be appraised and the appraised value will settle all or part of the outstanding long-term deposit. However, during the fiscal year ended September 30, 2023, no patent or technical innovation was materialized, and the Company demanded the payback of the long-term prepayment. Due to the uncertainty of collection and prospect of the research programs, the Company has written off approximately of \$9.83 million long-term prepayment.

NOTE 9 - LONG-TERM ACCOUNTS RECEIVABLE

Long-term accounts receivable as of September 30, 2023 consists of the accounts receivable sold to a third-party. On August 18, 2022, the Company sold accounts receivables of its 144 customers with aggregated amount of RMB 65,776,506 to a third-party company with no recourse. The buyer shall pay to the Company RMB 62,487,681, which is 95% of the transferred accounts receivable value, no later than December 31, 2024 and therefore was classified as long-term accounts receivable with discounted present value of \$7,522,188. During the fiscal year ended September 30, 2022, the Company evaluated ASC 860-20-40 and recorded gain on accounts receivable factoring of \$1,602,500 and interest expense of \$1,151,453. During the fiscal year ended September 30, 2023, the maturity date was extended to December 31, 2026, and Company collected accounts receivable of \$1,630,442 and recorded interest expense of \$359,051.

NOTE 10 – LONG-TERM INVESTMENT

Wenzhou Longlian Development Co., Ltd. ("Longlian")

The Company made an investment in 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, 2022 and 2021, the Company carried this investment at its cost in the amount of \$292,866 and \$323,323, respectively. During 2022 and 2021 fiscal years, the Company received \$nil and \$50,713 dividend income from Longlian, respectively.

[Table of Contents](#)*CG Malta Holding Limited (“CG Malta”)*

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 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\$35 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.

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.

For the 2021 and 2022 fiscal years, CG Malta achieved high growth with its online gaming services launched in more than 10 states in US with high growth rate of Real Money Handle and First-Time Depositor. More detailed operation performance is included in *Item 5. Operating And Financial Review And Prospects*. As of September 30, 2022, the Company carried this investment at its cost in the amount of \$25,000,000. For the year ended September 30, 2022, no impairment was recognized for the investment in CG Malta.

During the 2023 fiscal year, the competition of gaming market has been increasingly intense. Market bullishness and valuations peaked in early-2023 and declined rapidly from there, preventing CG Malta from raising further capital to execute its business plan. For the best interest of the Company’s shareholder, the Company decided to stop funding CG Malta and instead demanded the management team of CG Malta took active measures to achieve organic growth and healthy cash flow. However, the business was unable to raise the capital required to fund the business plan, and therefore the shareholders of CG Malta passed shareholder resolution on November 27, 2023 to cease operations of CG Malta and wind up the entity. For the year ended September 30, 2023, the Company has written off the investment in CG Malta and recorded impairment loss of \$25,000,000.

NOTE 11 – RELATED PARTY TRANSACTIONS

Net amounts due to related parties consisted of the following as of September 30, 2023 and 2022:

Accounts	Name of related parties	As of September 30,	
		2023	2022
Related party payables	Shareholder, HUANG Jian Cong	\$ 1,017,701	\$ 1,963,527
Related party payables	Other Affiliates of the Company	93,300	88,876

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, 2023 and 2022, the Company had outstanding loans with total amount of \$1,017,701 and \$1,963,527 from its shareholder, HUANG Jian Cong.

NOTE 12 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following as of September 30, 2023 and 2022:

	As of September 30,	
	2023	2022
VAT payable	\$ 3,165,668	\$ 4,054,300
Other tax payables	40,654	93,282
Other	1,758,571	2,802,190
Total	\$ 4,964,893	\$ 6,949,772

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 13 – SHORT-TERM AND LONG-TERM BANK BORROWINGS

Short-term bank borrowings consisted of the following at September 30, 2023:

Bank Name	Amount - RMB	Amount - USD	Issuance Date	Expiration Date	Interest
Industrial Bank	6,000,000	822,368	2022-11-03	2023-11-03	4.50 %
Industrial Bank	6,000,000	822,368	2022-11-04	2023-11-04	4.50 %
China Everbright Bank	10,000,000	1,370,614	2023-06-30	2024-06-29	3.20 %
China Minsheng Bank	1,000,000	137,061	2023-08-03	2024-03-01	3.75 %
China Minsheng Bank	10,000,000	1,370,614	2023-08-04	2024-03-01	3.75 %
China Minsheng Bank	5,000,000	685,307	2023-08-07	2024-03-01	3.75 %
CZBANK	9,250,000	1,267,818	2023-08-08	2024-08-06	4.50 %
CZBANK	1,250,000	171,327	2022-10-10	2023-10-09	5.00 %
Shanghai Pudong Development Bank	9,000,000	1,233,553	2023-09-19	2024-03-19	4.75 %
Shanghai Pudong Development Bank	11,000,000	1,507,676	2023-09-21	2024-03-21	4.75 %
Total	68,500,000	9,388,706			

Long-term bank borrowings consisted of the following at September 30, 2023:

Bank Name	Amount - RMB	Issuance USD	Expiration Date	Date	Interest
China Minsheng Bank	10,000,000	1,370,614	2023-08-11	2025-08-11	3.80 %
China Minsheng Bank	15,000,000	2,055,921	2023-08-14	2025-08-14	3.80 %
China Minsheng Bank	20,000,000	2,741,228	2023-08-21	2025-08-20	3.80 %
CZBANK	3,735,000	511,924	2023-03-14	2026-03-13	4.50 %
Huaxia Bank	6,790,000	930,647	2023-03-27	2026-03-15	4.15 %
Huaxia Bank	6,693,000	917,352	2023-03-28	2026-03-15	4.15 %
Total	62,218,000	8,527,686			

Short-term bank borrowings consisted of the following at September 30, 2022:

Bank Name	Amount - RMB	Amount - USD	Issuance Date	Expiration Date	Interest
Industrial Bank	6,000,000	843,467	2021-11-08	2022-11-08	5.22 %
Industrial Bank	7,000,000	984,044	2021-11-05	2022-11-05	5.22 %
China Merchants Bank	13,000,000	1,827,511	2022-06-08	2022-12-07	4.80 %
China Minsheng Bank	10,000,000	1,405,778	2022-09-09	2023-09-09	4.20 %
China Minsheng Bank	15,000,000	2,108,667	2022-09-14	2023-09-14	4.20 %
China Minsheng Bank	16,000,000	2,249,244	2022-09-08	2023-09-08	4.20 %
China Minsheng Bank	20,000,000	2,811,555	2022-09-13	2022-09-13	4.20 %
CZBANK	2,000,000	281,156	2022-03-02	2023-02-28	5.60 %
CZBANK	3,000,000	421,733	2022-07-11	2023-07-10	5.00 %
CZBANK	5,850,000	822,380	2022-07-21	2023-07-19	5.00 %
CZBANK	1,000,000	140,578	2022-07-25	2023-07-24	5.00 %
CZBANK	1,500,000	210,867	2022-08-05	2023-08-04	5.00 %
CZBANK	1,400,000	196,809	2022-09-23	2023-09-22	5.00 %
Huaxia Bank	3,000,000	421,733	2022-03-23	2023-03-15	5.30 %
Huaxia Bank	4,000,000	562,311	2022-03-16	2023-03-01	5.30 %
Huaxia Bank	6,900,000	969,987	2022-05-05	2023-04-15	5.30 %
Total	115,650,000	16,257,820			

The Company's short-term and long-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.

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The carrying values of the Company's pledged assets to secure short-term and long-term borrowings by the Company are as follows:

	As of September 30.	
	2023	2022
Accounts receivable	\$ 706,623	\$ —
Buildings, net	1,145,778	1,211,943
Land use rights, net	346,947	368,015
Machinery, net	—	134,076
Construction in progress	685,992	—
Deposit Receipt	—	702,889
Total	<u>\$ 2,885,340</u>	<u>\$ 2,416,923</u>

NOTE 14 – 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, 2022, 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, 2023. 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, 2023 and 2022 and the results of operations or cash flows for the years ended September 30, 2023 and 2022.

NOTE 15 – 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 \$nil and \$817,059 for the years ended September 30, 2023 and 2022, 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 22.

NOTE 16 – GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the fiscal years ended September 30, 2023 and 2022 consisted of following:

	2023	2022
Bad debt charges (recovery)	\$ —	(1,876,529)
Employee compensation and benefits	3,390,733	4,024,284
Consulting expenses	684,691	1,612,980
Amortization expenses	298,431	830,481
Depreciation expenses	229,018	149,156
Entertainment expenses	173,096	98,454
Sales tax	168,962	54,789
Other expenses	199,409	527,960
Total	<u>\$ 5,144,340</u>	<u>5,421,575</u>

NOTE 17 – 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, 2023 and 2022. The Company had no customer who accounted for more than 10% of total accounts receivables as of September 30, 2023 and 2022.

For the year ended September 30, 2023, two suppliers accounted for 29.70% and 22.51% 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, 2023, the suppliers had accounts payable balance of \$260,143 and \$250,080 which represents 10.63% and 10.22% of total accounts payable, respectively. For the year ended September 30, 2022, two suppliers accounted for 37.24% and 27.07% 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, 2022, the suppliers had accounts payable balance of \$285,904 and \$219,703 which represents 13.59% and 10.44% of total accounts payable, respectively. The Company believes there are numerous other suppliers that could substitute the current significant vendors should they become unavailable or non-competitive.

NOTE 18 – 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, 2022, a majority of Holders have demanded to convert their convertible debentures and a total of 3,047,486 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.

On December 7, 2022, the Company entered into amendment agreements with outstanding Holders to amend the maturity date to August 26, 2023, and the amendment was treated as extinguishment of the original convertible notes and issuance of new convertible notes with principle amount of \$3,947,080 and discount on debt of \$678,782.

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Net carrying amount of the liability component Convertible Notes dated as of September 30, 2022 was as follows:

	Principal outstanding	Discount on debt	Net carrying value
Convertible Notes - short-term	\$ 3,947,080	(594,769)	\$ 3,352,311

Net carrying amount of the equity component of the Convertible Notes as of September 30, 2022 was as follows:

	Amount allocated to conversion option	Issuance cost	Equity component, net
Convertible Notes – equity portion	\$ 678,782	—	\$ 678,782

Prior year number was revised to correct a disclosure error. However, this error had no impact on Consolidated Statements of Balance Sheets and Consolidated Statements of Changes in Shareholders' Equity.

On December 21, 2023, the Company entered into amendment agreements with outstanding Holders to amend the maturity date to June 30, 2024, and the amendment was treated as extinguishment of the original convertible notes and issuance of new convertible notes ("Convertible Note – 2023").

In accounting for the issuance of the Convertible Note 2023 under ASU 2020-06, the Company recorded the convertible note as a single liability in its entirety according to the new framework. The effective interest rate for the Convertible Note 2023 is 16.82%.

For the year ended September 30, 2023, there were no Holders converted their convertible debentures.

Net carrying amount of the liability component Convertible Notes dated as of September 30, 2023 was as follows:

	Principal outstanding	Interest on Convertible notes	Net carrying value
Convertible Notes - 2023	\$ 3,947,080	64,144	\$ 4,011,224

NOTE 19 – STOCK-BASED COMPENSATION, OPTIONS AND WARRANTS

Stock-based compensation

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. For the fiscal year ended September 30, 2022, the Company recognized \$791,754 for the compensation cost, and \$510,120 of which was capitalized for xSigma Trading development. The stock-based compensation has been fully capitalized during fiscal year 2022, and no stock-based compensation was capitalized during fiscal year 2023.

On March 15, 2023, the Company issued a total of 1,580,200 shares to 12 employees pursuant to the 2021 Equity Incentive Plan under which a maximum of 4,200,000 shares is authorized to be granted to employees of the Company. The fair value of the shares issued had an estimated fair value of \$1,185,150 which is measured based on their fair market value on the date of grant.

On July 26, 2023, the Company issued a total of 1,019,600 shares to 12 employees pursuant to the 2021 Equity Incentive Plan under which a maximum of 4,200,000 shares is authorized to be granted to employees of the Company. The fair value of the shares issued had an estimated fair value of \$654,583 which is measured based on their fair market value on the date of grant.

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, 2023, is presented below:

	Shares Underlying Options	Weighted Average Exercise Price	Remaining Contractual Term (Years)	Grant-Date Fair Value
Outstanding at October 1, 2021	250,000	\$ 10	0	\$ 1,085,386
Granted	—	\$ —	—	\$ —
Exercised	—	\$ —	—	—
Forfeited	—	\$ —	—	—
Outstanding at September 30, 2022	250,000	\$ 10	0	\$ 1,085,386
Exercisable at September 30, 2022	250,000	\$ 10	0	\$ —

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, 2022, 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, 2022, 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, 2022. The performance earn-out shares were not accrued during the fiscal year 2022 as the performance condition was not achieved and it is not probable the performance condition will be achieved.

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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 \$5.30 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, 2023, 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, 2023:

	Shares Underlying Options/Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at October 1, 2022	4,774,642	\$ 2.87	4.7
Issued	—	\$ —	—
Exercised	—	\$ —	—
Forfeited	—	\$ —	—
Outstanding at September 30, 2023	4,774,642	\$ 2.87	3.7
Exercisable at September 30, 2023	4,774,642	\$ 2.87	3.7

NOTE 20 – STOCKHOLDERS' EQUITY**Share Issuances**

On June 13, 2022, the Company issued a total of 1,407,200 shares to 12 employees pursuant to the 2021 Equity Incentive Plan under which a maximum of 4,200,000 shares is authorized to be granted to employees of the Company. The fair value of the shares issued had an estimated fair value of \$1,688,640 which is measured based on their fair market value on the date of grant.

During the fiscal year ended September 30, 2022, the Company issued a total of 67,563 ordinary shares for the conversion of convertible notes by the holders, details are shown in Note 18.

On March 15, 2023, the Company issued a total of 1,580,200 shares to 12 employees pursuant to the 2021 Equity Incentive Plan under which a maximum of 4,200,000 shares is authorized to be granted to employees of the Company. The fair value of the shares issued had an estimated fair value of \$1,185,150 which is measured based on their fair market value on the date of grant.

On July 26, 2023, the Company issued a total of 1,019,600 shares to 12 employees pursuant to the 2021 Equity Incentive Plan under which a maximum of 4,200,000 shares is authorized to be granted to employees of the Company. The fair value of the shares issued had an estimated fair value of \$654,583 which is measured based on their fair market value on the date of grant.

During the fiscal year ended September 30, 2023, no convertible holder exercised convertible notes.

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, 2023 is \$3,176,556.

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, 2023, so no appropriation to the statutory surplus reserves and staff welfare and bonus fund was made. Zhejiang Zhengkang appropriated \$261,954 to the statutory surplus reserves for the year ended September 30, 2022.

Wenzhou Zhengfeng recorded a net loss for the years ended September 30, 2023 and 2022, 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, 2023, 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 \$7,470,323 as of September 30, 2023 and 2022.

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, 2023 and 2022. The non-controlling interest in ZK Uganda was 20% as of September 30, 2023. The non-controlling interest in xSigma Corporation was 49% as of September 30, 2023. The non-controlling interest in Suona was 1% as of September 30, 2023.

NOTE 21 – 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, 2023 and 2022, revenue and assets within PRC contributed over 90% of the Company's total revenue and assets.

NOTE 22 – INCOME TAXES

	As of September 30,		
	2023	2022	2021
Deferred tax assets:			
Bad debt allowance recorded for accounts receivable , other receivable, and long-term prepayments	\$ 2,643,662	\$ 301,885	\$ 333,280
Inventory provision	14,972	15,355	16,952
Net operating loss carry-forward	2,850	2,924	690,882
Less: valuation allowance	(2,661,484)	—	(687,654)
Total	<u>\$ —</u>	<u>\$ 320,164</u>	<u>\$ 353,460</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, 2023, 2022 and 2021 were \$nil, \$320,164, and \$353,460, respectively, which were mainly derived from the temporary difference from provision of doubtful accounts and net operating loss carry forward of Zhejiang Zhengkang 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, 2023, 2022 and 2021 are attributed to the Company’s continuing operations in China and consisted of:

	For the year ended September 30,		
	2023	2022	2021
Current income tax recovery	\$ (782,752)	\$ (1,340,844)	\$ (958,210)
Deferred income tax expenses	322,897	—	406,064
Total income tax recovery	<u>\$ (459,855)</u>	<u>\$ (1,340,844)</u>	<u>\$ (552,146)</u>

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, 2023, 2022 and 2021 as follows:

	For the year ended September 30,		
	2023	2022	2021
Income before taxes excluded the amounts of loss incurring entities	\$ —	\$ —	—
PRC EIT tax rates	15 %	15 %	15 %
Tax at the PRC EIT tax rates	—	—	—
Tax effect of 100% (75% for 2021) R&D expenses deduction	—	—	—
Tax effect of deferred tax recognized	322,897	—	406,064
Tax effect of non-deductible expenses	—	—	—
Change in unrecognized tax benefits	(782,752)	(1,340,844)	(958,210)
Income tax recovery	<u>\$ (459,855)</u>	<u>\$ (1,340,844)</u>	<u>\$ (552,146)</u>

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 November 30, 2021 to November 30, 2024.

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 30% if revenue is generated in Uganda.

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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,		
	2023	2022	2021
Balance at beginning period	\$ 817,059	\$ 2,354,832	\$ 3,188,615
Addition for tax positions of the current year	(38,695)	—	(37,407)
Lapse of statute of limitations	(785,337)	(1,315,945)	(967,698)
Effect of exchange rate changes	6,973	(221,828)	171,322
Balance at ending period	\$ —	\$ 817,059	\$ 2,354,832

As of September 30, 2023 and 2022, the Company had unrecognized tax benefits of \$nil and \$817,059 respectively and such balance was included in "income tax payable" account. For the fiscal years 2023, 2022 and 2021, no tax authority initiated tax examination against the Company and the Company was issued *Certificate of No Tax Arrears* on November 6, 2023 by local tax authority which indicates the Company has fully paid income taxes for its tax returns since January 01, 2017.

NOTE 23 - SUBSEQUENT EVENTS

On November 27, 2023, the Company and xSigma Entertainment entered into a settlement agreement (the "Settlement Agreement") with CG Malta, the shareholder who holds the remainder ownership of CG Malta (the "CG Malta Shareholder"), a subsidiary of CG Malta ("CG Malta Subsidiary"), and a third party (collectively, the "Parties"). Pursuant to the Settlement Agreement, the Parties agreed to release, acquit and discharge any and all actions, claims, rights, demands, and set-offs arising out of or connected with (i) a written shareholders agreement entered into by and among CG Malta, the CG Malta Shareholder and xSigma Entertainment in or about March 2021 for the purposes of, inter alia, regulating the CG Malta Shareholder and xSigma Entertainment's relationship as shareholders of CG Malta, (ii) a written subscription for shares agreement entered into by and among CG Malta, the CG Malta Shareholder and xSigma Entertainment on or about April 4, 2021, pursuant to which, xSigma Entertainment agreed to subscribe for, and CG Malta agreed to issue and allot to xSigma Entertainment, additional shares in CG Malta on the terms and subject to the conditions contained therein; (iii) a dispute between the end of 2022 and beginning of 2023 between CG Malta, the CG Malta Shareholder, xSigma Entertainment and the Company relating to the financial position of CG Malta in connection with the dissolution and consequential winding-up of CG Malta (the "Dispute"); (iv) the underlying facts relating to the Dispute; (v) any other agreement between or act by the Parties or any of them; and (vi) any other matter arising out of or connected with the relationship between the Parties (collectively, the "Settlements"). In exchange for the Settlements, CG Malta Subsidiary transferred and assigned certain software to xSigma Entertainment on November 27, 2023 and the CG Malta Shareholder secured an independent third party investor to invest US\$5 million into the Company at preferential terms.

The Company entered into a Securities Purchase Agreement, dated November 27, 2023 (the "Purchase Agreement"), with an investor (the "Investor"). Pursuant to the Purchase Agreement, the Investor purchased and the Company issued and sold 3,154,885 ordinary shares of the Company, of no par value (the "Shares"), at an aggregate purchase price of \$5 million (the "Private Placement"). On April 25, 2024, the Company issued the Shares and the Private Placement is closed. The Company plans to use the net proceeds from the Private Placement for working capital and general corporate purposes.

The Company entered into a Securities Purchase Agreement, dated July 12, 2024 to purchase a maximum of four million (4,000,000) common stocks of Recruiter.com Group, Inc. (Nasdaq: RCRT) in one or more closings. The Company irrevocably subscribed for and agrees to purchase two million (2,000,000) shares of common stock at a per share price of US\$1.00 per Share at this round of investment.

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On October 31, 2023, the Company entered into a Debt Assignment Agreement with five affiliates of the Company, including Jiancong Huang, Mingjie Wang, Guolin Wang, Jiandi Wang and Yangming Wang. Such agreement allows the five affiliates to assign their loans provided to the Company among the five affiliate. Pursuant to the agreement, the five affiliates agreed to assign and concentrate all loans provided to the Company to Jiancong Huang.

During the period from October 1, 2023 to the date of this report, the Company assigned its Notes Receivable with an amount of \$54,825 to its suppliers to pay for the raw materials it purchased.

In accordance with ASC Topic 855, “Subsequent Events”, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before this financial statements are issued, the Company has evaluated all events or transactions that occurred after September 30, 2023 up through the date the Company issued the consolidated financial statements.

Description of Securities
Registered under Section 12 of the Securities Exchange Act of 1934, as Amended (the “Exchange Act”)

Ordinary shares, no par value per share (“Ordinary Share”), of ZK International Group Co., Ltd. (“we,” “our,” “our company,” or “us”) are listed and traded on the Nasdaq Capital Market, and in connection with this listing (but not for trading), its Ordinary Shares are registered under Section 12(b) of the Exchange Act. This exhibit contains a description of the rights of the holders of Ordinary Shares.

Description of Ordinary Shares

The following is a summary of material provisions of our currently effective Amended and Restated Memorandum and Articles of Association (the “Amended and Restated Memorandum and Articles of Association”), as well as the BVI Business Companies Act, 2004 (as amended) of the British Virgin Islands (the “Companies Act”) insofar as they relate to the material terms of our Ordinary Shares. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire Amended and Restated Memorandum and Articles of Association, which have been filed with the U.S. Securities and Exchange Commission as Exhibit 1.1 to the Form 6-K furnished on June 28, 2022.

Type and Class of Securities (Item 9.A.5 of Form 20-F)

Each Ordinary Share has no par value. The number of Ordinary Shares that have been issued as of the last day of the fiscal year ended September 30, 2023 is provided on the cover of the annual report on Form 20-F. Our Ordinary Shares may be held in either certificated or uncertificated form.

Preemptive Rights (Item 9.A.3 of Form 20-F)

There are no pre-emptive rights applicable to the issue of the Company’s Ordinary Shares under either British Virgin Islands law or our Amended and Restated Memorandum and Articles of Association.

Limitations or Qualifications (Item 9.A.6 of Form 20-F)

In respect of matters requiring a shareholder vote, each holder of Ordinary Shares will be entitled to one vote per one Ordinary Share.

Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of Ordinary Shares (Item 10.B.3 of Form 20-F)

Right to Transfer

Subject to the restrictions in the Memorandum and Articles of Association and applicable securities laws, any holder of Ordinary Shares 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.

Dividends

Our board of directors has discretion regarding whether to declare or pay dividends. Dividends may be paid in money, shares, or other property. All dividends are subject to certain restrictions under the Companies Act and the Company’s Amended and Restated Memorandum and Articles of Association, namely that: (a) all dividends must be authorized by a resolution of directors (being a simple majority of directors at a duly convened meeting or by written resolution in each case in accordance with the Amended and Restated Memorandum and Articles of Association) resolutions, by which our board of directors may authorize a distributions at any time and in any amount they think fit and set a record date (which may be before or after the date on which the board resolutions

are passed) for determining the shareholders to be paid; (ii) our board of directors may only authorize payment of a dividend if they are satisfied (on reasonable grounds) that the value of the Company's assets exceeds its liabilities and the Company is able to pay its debts as they fall due (the "Solvency Test") immediately after paying the dividend; (iii) if, after a dividend is authorized (but before it is paid), our board of directors cease to be satisfied (on reasonable grounds) that the Company will be able to satisfy the Solvency Test after the dividend is paid, then such dividend is deemed not to have been authorized; (iv) the directors must notify each shareholder of any dividend authorized by them; (v) no interest accrues on any dividend; (vi) if a shareholder fails to claim any dividend for three (3) years after the date on which it was authorized by the directors, the directors may decide by a resolution of directors that the dividend is forfeited for the benefit of the Company; (vii) the directors may, before making any distributions, set aside out of the profits of the Company such sum as they think proper as a reserve fund, and may invest the sum so set apart as a reserve fund upon such securities as they may select; and (viii) the directors may determine in their sole discretion to issue bonus shares from time to time.

Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of Directors may deem relevant. In addition, we are a holding company and depend on the receipt of dividends and other distributions from our subsidiary to pay dividends on our shares.

There are no foreign exchange controls or foreign exchange regulations under current applicable laws of the various places of incorporation of our significant subsidiaries that would affect the payment or remittance of dividends.

Subject to the Company's Amended and Restated Memorandum and Articles of Association, each Ordinary Share confers on the holder (i) the right to an equal share in any distribution paid by the Company in accordance with the Companies Act and the articles and (ii) an equal share on the distribution of any surplus assets of the Company on its liquidation.

Voting Rights

Subject to the Company's Amended and Restated Memorandum and Articles of Association, each Ordinary Share confers on the holder the right to one (1) vote at a meeting of the shareholders or on any resolution of shareholders.

Subject to the Company's Amended and Restated Memorandum and Articles of Association, a resolution put to a vote at a meeting of shareholders will (in most cases) be passed and become a resolution of shareholders if it is passed by a simple majority of the votes cast in respect of the resolution, at a valid meeting of shareholders, by shareholders present (in person or by proxy) at the meeting who are entitled to vote on the resolution. Any action that may be taken by the shareholders at a meeting of shareholders may also be taken by the shareholders passing a written resolution of shareholders without the need for any prior notice to be given. A written resolution of shareholders is passed if signed or consented to (including by way of fax or email) by shareholders who hold shares carrying a simple majority of the votes that may be cast in respect of the resolution who are entitled to vote on the resolution.

A fraction of a share confers on the holder the rights, obligations and liabilities of a whole share of the same class corresponding to the fraction other than the right to vote. If the holder of a fraction of a share acquires a further fraction of a share of the same class, the fractions will be treated as being consolidated.

Variation of rights

The rights attached to Ordinary Shares, as specified below, may be varied only, whether or not the Company is being wound up, (i) with the consent in writing of or (ii) by a resolution passed at a meeting by the shareholders of more than 50 percent of the issued shares.

- (a) the right to one (1) vote at a meeting of the shareholders of the Company or on any resolution of shareholders;
- (b) the right to an equal share in any dividend paid by the Company; and
- (c) the right to an equal share in the distribution of the surplus assets of the Company on its liquidation.

Meetings of shareholders

Any director of the Company may call a meeting of shareholders if they decide to, and must call a meeting of shareholders if they are requested to do so in writing by shareholders entitled to exercise at least 30% of voting

rights within 28 days of receiving the written request in respect of the matter for which the meeting is requested. In the event that the directors fail to convene a meeting of shareholders within 28 days of receiving the written request, then: (a) any one director; (b) the company secretary; or (c) the shareholder who issued the written request, or where there is more than one, any one of those shareholders, may convene a meeting of shareholders.

The Company shall hold a meeting of the shareholders in accordance with the Company's Amended and Restated Memorandum and Articles of Association, the Companies Act and Nasdaq listing rules.

A quorum is present at a meeting of shareholders if one or more shareholders, who hold Ordinary Shares that carry at least one-third (33.3 per cent) of the voting rights of all shares then in issue, are present in person or by proxy.

Where a quorum is not present within two hours of the time set for the start of the meeting of shareholders, it will be dissolved. In any other case, the meeting will be adjourned to the following day and be held at the same time and place or any other date, time and/or place the directors decide by a resolution of directors.

At any adjourned meeting where a quorum per the previous paragraph is not present within one hour from the time appointed for the meeting, those shareholders who are present and have not less than one third of the votes of the shares of each class or series of shares entitled to vote on the matters to be considered by the meeting shall form a quorum (whatever the number of shares held by them).

A meeting of shareholders held in contravention of the requirement to give notice is valid if shareholders holding at least 90 percent 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.

Any corporation which is a shareholder may, by a resolution of its directors or other governing body, authorize any individual to act as its representative at a meeting of shareholders (or class of shareholders).

Protection of minority shareholders

We would normally expect BVI 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 shareholders, (such as the right to vote), and (4) an irregularity in the passing of a resolution which requires a special or extraordinary majority of the shareholders.

Additionally, British Virgin Islands law provides certain shareholder remedies for a minority shareholder whose rights have been breached or who disagrees with the way the Company is being managed. These remedies include an action for unfair prejudice and a derivative action.

Transfer of shares

Subject to the Company's Amended and Restated Memorandum and Articles of Association, the Ordinary Shares listed on Nasdaq may be transferred without the need for a written instrument of transfer signed by the transferor and containing the name and address of the transferee, if the transfer is carried out in accordance with the laws, rules, procedures and other requirements applicable to shares listed on Nasdaq (including, but not limited to, the applicable Nasdaq listing rules). 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. The transfer of an Ordinary Share is only effective once the name of the transferee is entered in the register of shareholders.

Calls of shares

Subject to the Amended and Restated Memorandum and Articles of Association and the rights attaching to any class of shares, our 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 and Purchase of Ordinary Shares

Subject to the provisions of the Companies Act, our board of directors may authorize 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 Companies Act, our Amended and Restated 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.

The Company may purchase, redeem or otherwise acquire and hold its own shares save that the Company may not purchase, redeem or otherwise acquire its own shares without the consent of shareholders whose shares are to be purchased, redeemed or otherwise acquired unless the Company is permitted by the Companies Act or any other provision in the Amended and Restated Memorandum or Articles to purchase, redeem or otherwise acquire the shares without their consent.

The Company may only offer to acquire shares if at the relevant time the directors determine by resolution of directors that immediately after the acquisition the value of the Company's assets will exceed its liabilities and the Company will be able to pay its debts as they fall due.

Subject to the provisions of the Companies Act, the Company may make an offer to purchase, redeem or otherwise acquire its own shares from one or more or all of the shareholders: (a) in accordance with Sections 60, 61 and 62 of the Companies Act; (b) in accordance with a right of a shareholder to have his shares redeemed or to have his shares exchanged for money or other property of the Company; (c) in exchange for newly issued shares of equal value; or (d) pursuant to the provisions of Section 179 of the Companies Act.

Distributions

The holders of our Ordinary Shares are entitled to such dividends or other distributions as may be authorized by our Directors by way of a resolution of directors, subject to the Companies Act and our Amended and Restated Memorandum and Articles of Association.

Subject to the Company's Amended and Restated Memorandum and Articles of Association, each Ordinary Share confers on the holder (i) the right to an equal share in any distribution paid by the Company in accordance with the Companies Act and the articles and (ii) an equal share on the distribution of any surplus assets of the Company on its liquidation.

Requirements to Change the Rights of Holders of Ordinary Shares (Item 10.B.4 of Form 20-F)

Variation of rights

The rights attached to Ordinary Shares, as specified below, may be varied only, whether or not the Company is being wound up, (i) with the consent in writing of or (ii) by a resolution passed at a meeting by the shareholders of more than 50 percent of the issued shares of that class.

- (a) the right to one vote at a meeting of the shareholders of the Company or on any resolution of shareholders;
- (b) the right to an equal share in any dividend paid by the Company; and
- (c) the right to an equal share in the distribution of the surplus assets of the Company on its liquidation.

Limitations on the Rights to Own Ordinary Shares (Item 10.B.6 of Form 20-F)

There are no limitations imposed by our Amended and Restated Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

Ownership Threshold (Item 10.B.8 of Form 20-F)

There are no provisions in our Amended and Restated Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

The Companies Act and the laws of the BVI affecting BVI companies and our shareholders differ from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the laws of the BVI applicable to us and the laws applicable to companies incorporated in the state of Delaware.

Mergers and Consolidation

The laws of the BVI, two or more BVI companies may merge or consolidate in accordance with section 170 of the Companies Act. A merger means the merging of two or more constituent companies into one of the constituent companies and a consolidation means the consolidating of two or more constituent companies into a new company. In order to merge or consolidate, then (among other things) the directors of each constituent company must approve a written plan of merger or consolidation, which must be authorized by a resolution of shareholders.

While a director may vote on the plan of merger or consolidation even if he has an interest in the merger or consolidation, the director must disclose the interest to all other directors of the company promptly upon becoming aware of the fact that he is interested in the merger or consolidation.

A transaction entered into by our company in respect of which a director is interested (including a merger or consolidation) is voidable by us unless the director's interest was (a) disclosed to the board prior to the transaction or (b) the transaction is (i) between the director and the company and (ii) the transaction is in the ordinary course of the company's business and on usual terms and conditions.

Notwithstanding the above, a transaction entered into by the company is not voidable if the material facts of the interest are known to the shareholders and they approve or ratify it or the company received fair value for the transaction.

Shareholders not otherwise entitled to vote on the merger or consolidation may still acquire the right to vote if the plan of merger or consolidation contains any provision which, if proposed as an amendment to the Amended and Restated Memorandum and Articles of Association, would entitle them to vote as a class or series on the proposed amendment. In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting held to approve the plan of merger or consolidation.

The shareholders of the constituent companies are not required to receive shares of the surviving or consolidated company but may receive debt obligations or other securities of the surviving or consolidated company, other assets, or a combination thereof. Further, some or all of the shares of a class or series may be converted into a kind of asset while the other shares of the same class or series may receive a different kind of asset. As such, not all the shares of a class or series must receive the same kind of consideration.

After the plan of merger or consolidation has been approved by the directors and authorized by a resolution of the shareholders, articles of merger or consolidation are executed by each company and filed with the Registrar of Corporate Affairs in the BVI.

A shareholder may dissent from a mandatory redemption of his shares, an arrangement (if permitted by the court), a merger (unless the shareholder was a shareholder of the surviving company prior to the merger and continues to hold the same or similar shares after the merger) or a consolidation. A shareholder properly exercising his dissent rights is entitled to a cash payment equal to the fair value of his shares.

A shareholder dissenting from a merger or consolidation must object in writing to the merger or consolidation before the vote by the shareholders on the merger or consolidation, unless notice of the meeting was not given to the shareholder. If the merger or consolidation is approved by the shareholders, the company must give notice of this fact to each shareholder who gave written objection within twenty (20) days. These shareholders then have twenty (20) days to give to the company their written election in the form specified by the Companies Act to dissent from the merger or consolidation, provided that in the case of a merger, the twenty (20) days starts when the plan of merger is delivered to the shareholder.

Upon giving notice of his election to dissent, a shareholder ceases to have any of the rights of a shareholder except the right to be paid the fair value of his shares. As such, the merger or consolidation may proceed in the ordinary course notwithstanding his dissent.

Within seven (7) days of the later of the delivery of the notice of election to dissent and the effective date of the merger or consolidation, the surviving or consolidated company must make a written offer to each dissenting shareholder to purchase his shares at a specified price per share that the company determines to be the fair value of the shares. The company and the shareholder then have 30 days to agree upon the price. If the company and a shareholder fail to agree on the price within the 30 days, then the company and the shareholder shall, within twenty (20) days immediately following the expiration of the 30-day period, each designate an appraiser and these two appraisers shall designate a third appraiser. These three appraisers shall fix the fair value of the shares as of the close of business on the day prior to the shareholders' approval of the transaction without taking into account any change in value as a result of the transaction.

Shareholders' Suits

There are both statutory and common law remedies available to our shareholders as a matter of British Virgin Islands law. These are summarized below:

Unfair prejudice

A shareholder who considers that the affairs of the company have been, are being, or are likely to be, conducted in a manner that is, or any act or acts of the company have been, or are, likely to be oppressive, unfairly discriminatory or unfairly prejudicial to the shareholder in that capacity, can apply to the BVI High Court under Section 184I of the Companies Act for an order requiring the company or any other person to acquire the shareholder's shares or pay compensation to the shareholder, regulating the future conduct of the company's affairs, amending the memorandum or articles of the company, appointing a receiver or liquidator of the company, rectifying the records of the company, or that any decision or action of the company which contravenes the Companies Act or the company's Amended and Restated Memorandum and Articles of Association be set aside.

Derivative actions

Section 184C of the Companies Act provides that a shareholder of a company may, with the leave of the BVI High Court, bring an action in the name of the company to redress any wrong done to it.

Just and equitable winding up

In addition to the statutory remedies outlined above, shareholders can also petition for the winding up of a company on the grounds that it is just and equitable for the court to so order. This statutory remedy is usually granted in exceptional circumstances and is only available where the company has been operated as a quasi-partnership and trust and confidence between the partners has broken down.

Indemnification of Directors and Executive Officers and Limitation of Liability

British Virgin Islands law does not limit the extent to which a company's Amended and Restated Memorandum and Articles of Association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the British Virgin Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our Amended and Restated Articles of Association permit indemnification of officers and directors for losses, damages, costs, and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty or fraud which may attach to such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Act for a Delaware corporation. In addition, the service agreements of our Directors and senior Executive Officers with the Company provide such person's additional indemnification beyond that provided in our Amended and Restated Articles of Association.

Under the Companies Act to be entitled to this indemnification, such person must have acted honestly and in good faith with a view to the best interests of our company and, in the case of criminal proceedings, they must have no reasonable cause to believe their conduct was unlawful.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our Directors, officers or persons controlling us 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.

Anti-Takeover Provisions in our Amended and Restated Memorandum and Articles of Association

Some provisions of our Amended and Restated Memorandum and Articles of Association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favourable, including provisions that authorize our board of Directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders.

However, under British Virgin Islands law, our Directors may only exercise the rights and powers granted to them under our Amended and Restated Memorandum and Articles of Association, as amended and restated from time to time, for what they believe in good faith to be in the best interests of our Company.

Directors' Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

Under British Virgin Islands law, our directors owe the company certain statutory and fiduciary duties including, among others, a duty to act honestly, in good faith, for a proper purpose and with a view to what the directors believe to be in the best interests of the company. Our directors are also required, when exercising powers or performing duties as a director, to exercise the care, diligence, and skill that a reasonable director would exercise in the same circumstances, taking into account without limitation, the nature of the company, the nature of the decision and the position of the director and the nature of the responsibilities undertaken. In the exercise of their powers, our directors must ensure neither they nor the company acts in a manner which contravenes the Companies Act or our Amended and Restated Memorandum and Articles of Association, as amended and restated from time to time. A shareholder has the right to seek damages for breaches of duties owed to us by our directors.

Shareholder Action by Written Consent

British Virgin Islands law provides that, subject to the Amended and Restated Memorandum and Articles of Association of a company, 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 or by telex, telegram, cable or other written electronic communication, without the need for any notice.

Our Amended and Restated Memorandum and Articles of Association provide that a written resolution of shareholders: (i) may consist of several documents (including electronic communications) in substantially the same form; (ii) may be signed or consented to by the relevant shareholder or the shareholder's attorney or (in the case of a body corporate) a properly authorized officer or attorney; and (iii) must be sent to each shareholder who would be entitled to attend a meeting of shareholders and vote on the resolution.

Our Amended and Restated Memorandum and Articles of Association permit shareholders to act by written consent (passed by the consent in writing of a simple majority of the votes of the Shares entitled to vote thereon) but provide that if a resolution of shareholders is approved otherwise than by unanimous written consent of all shareholders, a copy of the resolution must immediately be sent to each non-consenting shareholder.

Under the Delaware General Corporation Act, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Our Amended and Restated Articles of Association provide that any action required or permitted to be taken at general meetings of the Company may

only be taken upon the vote of shareholders at general meeting and shareholders may not approve corporate matters by way of a unanimous written resolution without a meeting being held.

Shareholder Proposals

Under the Delaware General Corporation Act, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors, or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Act and Amended and Restated Memorandum and Articles of Association provide that 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. We are not obliged under the Companies Act or any other law of the BVI to call shareholders' annual general meetings, but our Amended and Restated Memorandum and Articles of Association provide for an annual general meeting to be called in accordance with the requirements of the relevant listing rules, Amended and Restated Memorandum and Articles of Association and the Companies Act. The location of any shareholders' meeting can be determined by the board of directors and can be held anywhere in the world.

Cumulative Voting

Under the Delaware General Corporation Act, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. As permitted under British Virgin Islands law, our Amended and Restated Articles of Association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors (or otherwise ceasing to hold office)

A director ceases to hold office if: (i) the director's term of office expires and the director is not re-elected or reappointed; (ii) the director resigns by written notice to the Company; (iii) the director dies or enters into bankruptcy, liquidation or any similar procedure; (iv) the director becomes of unsound mind or is mentally or physically incapable of acting as a director; (v) the director is prohibited or disqualified by law or under Nasdaq Listing Rules from being a director; (vi) the director becomes bankrupt or insolvent or makes any arrangement or composition with the director's creditors generally; or (vii) the director is removed from office by a resolution of shareholders or resolution of directors (and, for this purpose, section 114 (Removal of directors) of the Companies Act does not apply to the Company).

A director may be removed from office (i) with or without cause, by a simple majority vote of the shareholders passed at a meeting of shareholders called for the purposes of removing the director (or for purposes including the removal of the director) or (ii) by a written resolution of the shareholders passed by at least 50 percent of the votes of the shareholders of the Company entitled to vote.

A director may be removed from office with cause, by a simple majority decision of the directors passed at a meeting of directors called for the purpose of removing the director (or for purposes including the removal of the director).

Under the Delaware General Corporation Act, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise.

Transactions with Interested Shareholders

The Delaware General Corporation Act contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting shares within the past three years. This has the effect of limiting the ability of a

potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's board of directors. British Virgin Islands law has no comparable statute.

Dissolution; Winding Up

Under the Delaware General Corporation Act, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under British Virgin Islands law, a company may be wound up by either an order of the courts of the British Virgin Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Under the Companies Act and our Amended and Restated Memorandum and Articles of Association, we may appoint a voluntary liquidator by a resolution of shareholders or (subject to section 199(2) of the Companies Act) a resolution of directors.

Variation of Rights of Shares

Under the Delaware General Corporation Act, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under British Virgin Islands law and our Amended and Restated Articles of Association, if our authorized shares are divided into more than one class of shares, we may vary the rights attached to any class only with the consent in writing of or by a resolution passed at a meeting by the holders of not less than 50 percent of the issued Shares in that class.

Amendment of Governing Documents

Under the Delaware General Corporation Act, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by British Virgin Islands law, our Amended and Restated Memorandum and Articles of Association may be amended by a resolution of shareholders and, subject to certain exceptions, by a resolution of directors. Any amendment is effective from the date it is registered at the BVI Registry of Corporate Affairs.

Rights of Non-Resident or Foreign Shareholders

There are no limitations imposed by our Amended and Restated 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 Amended and Restated Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

Directors' Power to Issue Shares

Subject to applicable law, our board of Directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

Changes in Capital (Item 10.B.10 of Form 20-F)

Subject to the Companies Act, we may, by board resolution, issue an unlimited number of shares as determined from time to time by the board of directors

1.

Debt Securities (Item 12.A of Form 20-F)

Not applicable.

Warrants and Rights (Item 12.B of Form 20-F)

Not applicable.

Other Securities (Item 12.C of Form 20-F)

Not applicable.

Description of American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)

Not applicable.

ZK International Group Co. Ltd.

The purpose of this policy is to govern activities concerning employee trading in securities. It is the policy of ZK International Group Co. Ltd. (the “Company”) that its directors, officers, employees (full time, part-time, contract and temporary) and associates including those of all subsidiary companies (collectively, the “Company Employees”), and all others who act on the Company’s behalf, observe the spirit and letter of all laws governing the Company’s operations, and conduct the Company’s affairs in keeping with the highest legal and ethical standards.

This policy, which has been approved by the Audit Committee of the Company’s Board of Directors, has been designed to assist Company Employees in understanding and complying with the Company’s policies and The Securities and Exchange Commission rules and regulation with respect to the trading of the Company’s securities. The policies set forth below may not cover every situation. If there is ever any doubt as to a proper course of action, Company Employees should consult with the Company’s Chief Executive Officer, the Company’s Corporate Secretary, or the Chief Financial Officer (each, a “Senior Officer”).

1.1 Summary

1. This policy is intended to ensure that Company Employees comply with the Company’s policies and The Securities and Exchange Commission rules and regulation with respect to the trading of the Company’s securities.
2. If Company Employees have undisclosed Material Information (as defined below) concerning the Company, neither that person nor any related person may buy or sell securities of the Company or engage in any other action that takes advantage of such information or pass such information on to others.
3. Insiders of the Company and related persons are prohibited from trading in securities of the Company from and including the day on which written notification is delivered prohibiting trading until 24 hours after the date and time that the public release announcing the Company’s material news is disseminated by the Company’s news service, or in the case of financial statements, (interim financial statements and annual audited financial statements) to the day on which the financial results of the Company for such periods are released. The Company will post the dates of proposed release of its interim and audited year-end financial statements, by e-mail, well in advance of the release dates.

1.2 Application of the Policy

1. This policy applies to all Company Employees and related persons. "Related persons" include all associates and affiliates of Company Employees (which includes, but is not limited to, spouses of Company Employees, relatives of Company Employees residing with them and personal holding companies of Company Employees).
2. This policy covers all investment activities over which such persons have control or direction, whether for their personal account or in a fiduciary capacity, as in the case of a partnership, trusteeship, or executorship.
3. Where there is any doubt as to whether this policy is applicable to a given person, Company Employees should consult with a Senior Officer or the Company's legal counsel.

1.3 Material Information

1. "Material Information" is any information concerning the business and affairs of the Company that results in or would reasonably be expected to result in a significant change in the market price or value of the Company's securities. Additionally, if it is information that a reasonable investor would want to know before making an investment decision.
 2. The following types of information regarding the Company should be presumed to be material:
 - (a) Changes in share ownership that may affect control of the Company;
 - (b) Take-over bids or issuer bids;
 - (c) Changes in corporate structure, such as amalgamations, arrangements, reorganizations, dissolutions, etc.;
 - (d) Major corporate acquisitions or dispositions;
 - (e) Changes in capital structure;
 - (f) Increases or decreases in dividends;
 - (g) Decisions to effect or make stock splits or stock dividends;
 - (h) proposed issuance of additional securities, whether public or private;
 - (i) proposed redemptions or other repurchases of the Company's securities;
 - (j) Potential initiation of a proxy battle;
 - (k) Changes in earnings or financial forecasts or estimates, especially near-term earnings prospects;
 - (l) Significant change in operations;
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- (m) Entering or loss of significant contracts, particularly with customers or suppliers;
- (n) Developments affecting the Company's resources, technology, or market;
- (o) Extraordinary or otherwise significant borrowings;
- (p) Major litigation and developments in same;
- (q) Changes in capital investment plans or corporate objectives;
- (r) Problems with financial liquidity or with other commitments;
- (s) Significant management changes;
- (t) Major alterations in asset value or make-up;
- (u) Major labour disputes or disputes with major contractors, customers, or suppliers;
- (v) Major changes in operating and financial facts, such as reduction of cash flow or write-offs;
- (w) Events of default under financing or other agreements; and
- (x) Insolvency or bankruptcy.

3. The foregoing examples of "material information" are by no means exhaustive.
4. The source of any material information is, for purposes of this policy, irrelevant. Disclosure of material information to the public will only be understood to have occurred once an official announcement has been made and the public has had sufficient opportunity to evaluate it (which will usually be considered to require at least one whole trading day). When in doubt, any information should be presumed to be material information and not to have been disclosed to the public. Disclosure of material information to the public will only be made by or with the prior approval of a "Senior Officer".

1.4 Definition of Insider

1. "Insiders" of the Company include all directors and officers of the Company, or of any subsidiary of the Company, and any person or company (e.g. a personal holding company) who, directly or indirectly, owns or controls more than 10% of the voting shares of the Company.

1.5 Trading Prohibitions

1. If Company Employees possess undisclosed material information concerning the Company, such Company Employees and related persons may not, directly or indirectly (i.e. via private holding company, registered retirement savings plans, or otherwise):
 - a. Buy or sell securities of the Company;
 - b. Buy or sell securities whose price or value may reasonably be expected to be affected by changes in price of the Company's securities;
 - c. Exercise Company stock options or similar employee compensation mechanisms; or
 - d. Buy or sell securities of another company in which the Company proposes to invest or where the individual, due to his position with the Company, becomes aware of undisclosed material information concerning that other company.
2. Company Employees are prohibited from engaging in any other action to take advantage of undisclosed material information concerning the Company or undisclosed material information concerning another company, and from passing such information on to others (i.e. "tipping").
3. The prohibitions of this policy also apply to trading by individuals (e.g. spouses, friends, business associates, relatives, etc. of Company Employees) who learn of undisclosed material information concerning the Company or undisclosed material information concerning another company from Company Employees, who for the purposes of this policy are responsible for the trading by such individuals. It should be noted that trading by such individuals would also likely constitute a violation by them of applicable securities law relating to insider trading.

1.6 Financial Reporting

1. To assist in ensuring trading in Company securities does not occur by Insiders or related persons when undisclosed material information concerning the Company may exist, trading by Insiders and related persons in securities of the Company is prohibited from and including the day which is two days prior to the planned date of public release of the Company's interim (3 times each year) and annual audited financial statements to the 24-hour period on which the financial results of the Company for such periods are released. The Company will post the dates of proposed release of its interim and audited year-end financial statements, by e-mail, well in advance of the specific release dates.
 2. As the Company must release its interim financial statements within 45/60 days of the end of each 3-month period (being the 3 month periods ended January 31, April 30, and July 31 and within 90 days of its financial year end (being October 31 of each year) the planned dates of public dissemination of the Company's results is as follows:
 - a. Interim Statements Target Release Date (or closest business day)
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- b. 3 Months ended January 31/ March 17
 - c. 6 Months ended April 30/ June 15
 - d. 9 Months ended July 31/ September 14
 - e. Year Ended October 31/ January 29
3. To ensure that no trading by Insiders or related persons in securities of the Company occurs at any time when there exists undisclosed material information concerning the Company, the periods during which Insiders and related persons are prohibited from trading in the Company's securities may be extended by a Senior Officer of the Company. All Insiders will be informed forthwith of any such extension, but will not be entitled to be informed of the reasons for the extension.
 4. Insiders and related persons are prohibited always from selling securities of the Company that they do not own (i.e. short selling) or from buying or selling part of call options on the securities of the Company.

1.7 Regulatory Reporting Requirements

1. Insiders must file in a timely manner with the Securities Exchange Commission or relevant regulator(s) an Insider Report whenever such Insider purchases or sells securities of the Company. Insider Reports are required to be filed on or before the fifth day following the date on which the purchase or sale of securities occurs.
2. A copy of any Insider Report must be provided to the Company at the time of filing. While Insiders are responsible for filing their own Insider Reports, the Company will, upon request, assist.

Insiders in the filing of Insider Reports.

1.8 Sanctions

1. Failure to comply with this Policy will result in the Company taking appropriate disciplinary action, which may include termination of employment.
2. U.S securities laws provide that breach of the prohibition against trading in securities with knowledge of undisclosed material information or providing undisclosed material information to others, in addition to civil liability for damages, may result in imprisonment and/or a fine.
3. Penalties may also be levied by U.S. securities regulatory authorities for not complying with the requirements to file Insider Reports.

1.9 Company Contact Person

1. Company Employees who are unsure whether they may trade in a given circumstance are advised to contact a Senior Officer for specific guidance or the Company's outside legal counsel.
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**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 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 August 12, 2024

By: /s/ Jiancong Huang
Name: Jiancong Huang
Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Xiaofen Jin, Chief Financial Officer of ZK International Group Co., Ltd. (the "Company"), certify that:

1. I have reviewed this 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 August 12, 2024

By: /s/ Xiaofen Jin

Name: Xiaofen Jin

Title: Chief Financial Officer

**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 annual report on Form 20-F for the fiscal year ended September 30, 2023 (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 August 12, 2024

By: /s/ Jiancong Huang
Name: Jiancong Huang
Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Xiaofen Jin, 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 annual report on Form 20-F for the fiscal year ended September 30, 2023 (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 August 12, 2024

By: */s/ Xiaofen Jin*

Name: Xiaofen Jin

Title: Chief Financial Officer

ZK International Group Co., Ltd.
Executive Compensation Recovery Policy

This policy covers the Covered Officers of ZK International Group Co., Ltd. (the “Company”) and explains when the Company will be required or authorized, as applicable, to seek recovery of Incentive Compensation awarded or paid to Covered Officers. Please refer to Exhibit A attached hereto (the “Definitions Exhibit”) for the definitions of capitalized terms used throughout this Policy.

- 1. Miscalculation of Financial Performance Measure Results.** In the event of a Restatement, the Company will seek to recover, reasonably promptly, all Recoverable Incentive Compensation from a Covered Officer during the Applicable Period. Such recovery, in the case of a Restatement, will be made without regard to any individual knowledge or responsibility related to the Restatement or the Recoverable Incentive Compensation. Notwithstanding the foregoing, if the Company is required to undertake a Restatement, the Company will not be required to recover the Recoverable Incentive Compensation if the Compensation Committee determines it Impracticable to do so, after exercising a normal due process review of all the relevant facts and circumstances.

the Company will seek to recover all Recoverable Incentive Compensation that was awarded or paid in accordance with the definition of “Recoverable Incentive Compensation” set forth on the Definitions Exhibit. If such Recoverable Incentive Compensation was not awarded or paid on a formulaic basis, the Company will seek to recover the amount that the Compensation Committee determines in good faith should be recouped.

- 2. Legal and Compliance Violations.** Compliance with the law and the Company’s corporate policies is a pre-condition to earning Incentive Compensation. If the Company in its sole discretion concludes that a Covered Officer (1) committed a significant legal or compliance violation in connection with the Covered Officer’s employment, including a violation of the Company’s corporate policies (each, “Misconduct”), or (2) was aware of or willfully blind to Misconduct that occurred in an area over which the Covered Officer had supervisory authority, the Company may, at the direction of the Compensation Committee, seek recovery of all or a portion of the Recoverable Incentive Compensation awarded or paid to the Covered Officer for the Applicable Period in which the violation occurred. In addition, the Company may, at the direction of the Compensation Committee, conclude that any unpaid or unvested Incentive Compensation has not been earned and must be forfeited.

In the event of Misconduct, the Company may seek recovery of Recoverable Incentive Compensation even if the Misconduct did not result in an award or payment greater than would have been awarded or paid absent the Misconduct.

In the event of Misconduct, in determining whether to seek recovery and the amount, if any, by which the payment or award should be reduced, the Compensation Committee may consider—among other things— the seriousness of the Misconduct, whether the Covered Officer was unjustly enriched, whether seeking the recovery would prejudice the Company’s interests in any way, including in a proceeding or investigation, and any other factors it deems relevant to the determination.

3. **Other Actions.** The Compensation Committee may, subject to applicable law, seek recovery in the manner it chooses, including by seeking reimbursement from the Covered Officer of all or part of the compensation awarded or paid, by electing to withhold unpaid compensation, by set-off, or by rescinding or canceling unvested stock.

In the reasonable exercise of its business judgment under this Policy, the Compensation Committee may in its sole discretion determine whether and to what extent additional action is appropriate to address the circumstances surrounding a Restatement or Misconduct to minimize the likelihood of any recurrence and to impose such other discipline as it deems appropriate.

4. **No Indemnification or Reimbursement.** Notwithstanding the terms of any other policy, program, agreement or arrangement, in no event will the Company or any of its affiliates indemnify or reimburse a Covered Officer for any loss under this Policy and in no event will the Company or any of its affiliates pay premiums on any insurance policy that would cover a Covered Officer's potential obligations with respect to Recoverable Incentive Compensation under this Policy.
 5. **Administration of Policy.** The Compensation Committee will have full authority to administer this Policy. Actions of the Compensation Committee pursuant to this Policy will be taken by the vote of a majority of its members. The Compensation Committee will, subject to the provisions of this Policy and Rule 10D-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Company's applicable exchange listing standards, make such determinations and interpretations and take such actions in connection with this Policy as it deems necessary, appropriate or advisable. All determinations and interpretations made by the Compensation Committee will be final, binding and conclusive.
 6. **Other Claims and Rights.** The remedies under this Policy are in addition to, and not in lieu of, any legal and equitable claims the Company or any of its affiliates may have or any actions that may be imposed by law enforcement agencies, regulators, administrative bodies, or other authorities. Further, the exercise by the Compensation Committee of any rights pursuant to this Policy will not impact any other rights that the Company or any of its affiliates may have with respect to any Covered Officer subject to this Policy.
 7. **Condition to Eligibility for Incentive Compensation.** All Incentive Compensation subject to this Policy will not be earned, even if already paid, until the Policy ceases to apply to such Incentive Compensation and any other vesting conditions applicable to such Incentive Compensation are satisfied.
 8. **Amendment; Termination.** The Board or the Compensation Committee may amend or terminate this Policy at any time.
 9. **Effectiveness.** Except as otherwise determined in writing by the Compensation Committee, this Policy will apply to any Incentive Compensation that (a) in the case of any Restatement, is Received by Covered Officers prior to, on or following the Effective Date, and (b) in the case of Misconduct, is awarded or paid to a Covered Officer on or after the Effective Date. This Policy will survive and continue notwithstanding any termination of a Covered Officer's employment with the Company and its affiliates.
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10. **Successors.** This Policy shall be binding and enforceable against all Covered Officers and their successors, beneficiaries, heirs, executors, administrators, or other legal representatives.
 11. **Governing Law.** To the extent not preempted by U.S. federal law, this Policy will be governed by and construed in accordance with the laws of the State of New York, without reference to principles of conflict of laws.
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EXHIBIT A

DEFINITIONS

“Applicable Period” means (a) in the case of any Restatement, the three completed fiscal years of the Company immediately preceding the earlier of (i) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes (or reasonably should have concluded) that a Restatement is required or (ii) the date a regulator, court or other legally authorized entity directs the Company to undertake a Restatement, and (b) in the case of any Misconduct, such period as the Compensation Committee or Board determines to be appropriate in light of the scope and nature of the Misconduct. The “Applicable Period” also includes any transition period (that results from a change in the Company’s fiscal year) within or immediately following the three completed fiscal years identified in the preceding sentence.

“Board” means the Board of Directors of the Company.

“Compensation Committee” means the Company’s committee of independent directors responsible for executive compensation decisions, or in the absence of such a committee, a majority of the independent directors serving on the Board.

“Covered Officer” means (a) in the case of any Restatement, any person who is, or was at any time, during the Applicable Period, an Executive Officer of the Company, and (b) in the case of any Misconduct, any person who was an Executive Officer at the time of the Misconduct. For the avoidance of doubt, a Covered Officer may include a former Executive Officer that left the Company, retired, or transitioned to an employee role (including after serving as an Executive Officer in an interim capacity) during the Applicable Period.

“Effective Date” means December 1, 2023.

“Executive Officer” means the Company’s president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person (including an officer of the Company’s parent(s) or subsidiaries) who performs similar policy-making functions for the Company.

“Financial Performance Measure” means a measure that is determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements (including “non-GAAP” financial measures, such as those appearing in the Company’s earnings releases or Management Discussion and Analysis), and any measure that is derived wholly or in part from such measure. Stock price and total shareholder return (and any measures derived wholly or in part therefrom) shall be considered Financial Performance Measures.

“Impracticable.” The Compensation Committee may determine in good faith that recovery of Recoverable Incentive Compensation is “Impracticable” (a) in the case of any Restatement, if: (i) pursuing such recovery would violate home country law of the jurisdiction of incorporation of the Company where that law was adopted prior to October 2, 2023 and the Company provides an opinion of counsel to that effect acceptable to the Company’s listing exchange; (ii) the direct expense paid to a third party to assist in enforcing this Policy would exceed the Recoverable Incentive Compensation and the Company has (A)

made a reasonable attempt to recover such amounts and (B) provided documentation of such attempts to recover to the Company's applicable listing exchange; or (iii) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of the Internal Revenue Code of 1986, as amended, and (b) in the case of any Misconduct, in its sole discretion, in light of the scope and nature of the Misconduct.

"Incentive Compensation" means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Performance Measure. Incentive Compensation does not include any base salaries (except with respect to any salary increases earned wholly or in part based on the attainment of a Financial Performance Measure performance goal); bonuses paid solely at the discretion of the Compensation Committee or Board that are not paid from a "bonus pool" that is determined by satisfying a Financial Performance Measure performance goal; bonuses paid solely upon satisfying one or more subjective standards and/or completion of a specified employment period; non-equity incentive plan awards earned solely upon satisfying one or more strategic measures or operational measures; and equity awards that vest solely based on the passage of time and/or attaining one or more non-Financial Performance Measures. Notwithstanding the foregoing, in the case of any Misconduct, Incentive Compensation will include all forms of cash and equity incentive compensation, including, without limitation, cash bonuses and equity awards that are received or vest solely based on the passage of time and/or attaining one or more non-Financial Performance Measures.

"Received." Incentive Compensation is deemed "Received" in the Company's fiscal period during which the Financial Performance Measure specified in the Incentive Compensation award is attained, even if the payment or grant of the Incentive Compensation occurs after the end of that period.

"Recoverable Incentive Compensation" means (a) in the case of any Restatement, the amount of any Incentive Compensation (calculated on a pre-tax basis) Received by a Covered Officer during the Applicable Period that is in excess of the amount that otherwise would have been Received if the calculation were based on the Restatement, and (b) in the case of any Misconduct, the amount of any Incentive Compensation (calculated on a pre-tax basis) awarded or paid to a Covered Officer during the Applicable Period that the Compensation Committee determines, in its sole discretion, to be appropriate in light of the scope and nature of the Misconduct. For the avoidance of doubt, in the case of any Restatement, Recoverable Incentive Compensation does not include any Incentive Compensation Received by a person (i) before such person began service as a Covered Officer and (ii) who did not serve as a Covered Officer at any time during the performance period for that Incentive Compensation. For the avoidance of doubt, in the case of any Restatement, Recoverable Incentive Compensation may include Incentive Compensation Received by a person while serving as an employee if such person previously served as a Covered Officer and then transitioned to an employee role. For Incentive Compensation based on (or derived from) stock price or total shareholder return where the amount of Recoverable Incentive Compensation is not subject to mathematical recalculation directly from the information in the applicable Restatement, the amount will be determined by the Compensation Committee based on a reasonable estimate of the effect of the Restatement on the stock price or total shareholder return upon which the Incentive Compensation was Received (in which case, the Company will maintain documentation of such determination of that reasonable estimate and provide such documentation to the Company's applicable listing exchange).

"Restatement" means an accounting restatement of any of the Company's financial statements filed with the Securities and Exchange Commission under the Exchange Act, or the Securities Act of 1933, as amended, due to the Company's material noncompliance with any financial reporting requirement under U.S. securities laws, regardless of whether the Company or Covered Officer misconduct was the cause for

such restatement. "Restatement" includes any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (commonly referred to as "Big R" restatements), or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (commonly referred to as "little r" restatements).
