

REFINITIV

DELTA REPORT

10-Q

ITP - IT TECH PACKAGING, INC.

10-Q - JUNE 30, 2022 COMPARED TO 10-Q - MARCH 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS 916

█ CHANGES 382

█ DELETIONS 235

█ ADDITIONS 299

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2022** **June 30, 2022**

or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-34577

IT TECH PACKAGING, INC.

(Exact name of registrant as specified in its charter)

Nevada

20-4158835

(State or other jurisdiction of
incorporation or organization)

(IRS Employer

incorporation or organization)

identification No.)

Science Park, Juli Rd, Xushui District, Baoding City
Hebei Province, The People's Republic of China 072550
(Address of principal executive offices and Zip Code)

011 - (86) 312-8698215

(Registrant's telephone number, including area code)

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

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

Name of
each
exchange
on which
registered

Title of each class	Trading Symbol(s)	
Common Stock, par value \$0.001	ITP	NYSE American

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of **May 10, 2022** **August 09, 2022**, there were **99,049,900** **9,915,920** shares of the registrant's common stock, par value \$0.001, outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

IT TECH PACKAGING, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2022 AND DECEMBER 31, 2021

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
ASSETS		
Current Assets		
Cash and bank balances	\$ 15,358,443	\$ 11,201,612
Restricted cash	-	-
Accounts receivable (net of allowance for doubtful accounts of \$73,563 and \$69,053 as of March 31, 2022 and December 31, 2021, respectively)	4,984,738	4,868,934
Inventories	4,354,676	5,844,895
Prepayments and other current assets	23,025,189	25,796,640
Due from related parties	892,743	7,804,068
Total current assets	48,615,789	55,516,149
Prepayment on property, plant and equipment	-	43,446,210
Finance lease right-of-use assets, net	2,254,357	2,286,459
Property, plant, and equipment, net	174,077,916	126,587,428
Value-added tax recoverable	2,396,938	2,430,277
Deferred tax asset non-current	11,666,488	11,268,679
Total Assets	\$ 239,011,488	\$ 241,535,202
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term bank loans	\$ 5,984,374	\$ 5,958,561
Current portion of long-term loans from credit union	6,868,089	6,838,465
Lease liability	228,051	210,161
Accounts payable	72,616	10,255
Advance from customers	39,866	39,694
Due to related parties	727,433	727,433
Accrued payroll and employee benefits	278,287	291,206
Other payables and accrued liabilities	5,739,631	5,250,539
Income taxes payable	-	1,108,038
Total current liabilities	19,938,347	20,434,352
Loans from credit union	2,992,974	2,980,065
Deferred gain on sale-leaseback	131,185	155,110
Lease liability - non-current	84,204	152,233
Derivative liability	1,676,946	2,063,534
Total liabilities (including amounts of the consolidated VIE without recourse to the Company of \$17,240,190 and \$17,924,475 as of March 31, 2022 and December 31, 2021, respectively)	24,823,656	25,785,294
Commitments and Contingencies		
Stockholders' Equity		
Common stock, 500,000,000 shares authorized, \$0.001 par value per share, 99,049,900 shares issued and outstanding as of March 31, 2022 and December, 31, 2021.	99,050	99,050
Additional paid-in capital	88,927,787	88,927,787
Statutory earnings reserve	6,080,574	6,080,574
Accumulated other comprehensive income	11,422,306	10,496,168
Retained earnings	107,658,115	110,146,329
Total stockholders' equity	214,187,832	215,749,908
Total Liabilities and Stockholders' Equity	\$ 239,011,488	\$ 241,535,202
ASSETS		
	June 30, 2022	December 31, 2021

Current Assets			
Cash and bank balances	\$ 14,344,077	\$ 11,201,612	
Restricted cash	—	—	
Accounts receivable (net of allowance for doubtful accounts of \$51,319 and \$69,053 as of June 30, 2022 and December 31, 2021, respectively)	3,820,123	4,868,934	
Inventories	6,629,657	5,844,895	
Prepayments and other current assets	22,807,300	25,796,640	
Due from related parties	844,431	7,804,068	
Total current assets	48,445,588	55,516,149	
Prepayment on property, plant and equipment	—	43,446,210	
Finance lease right-of-use assets, net	2,092,625	2,286,459	
Property, plant, and equipment, net	161,195,384	126,587,428	
Value-added tax recoverable	2,226,703	2,430,277	
Deferred tax asset non-current	11,501,093	11,268,679	
Total Assets	\$ 225,461,393	\$ 241,535,202	
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term bank loans	\$ 5,958,518	\$ 5,958,561	
Current portion of long-term loans from credit union	4,410,406	6,838,465	
Lease liability	224,219	210,161	
Accounts payable	17,098	10,255	
Advance from customers	37,709	39,694	
Due to related parties	727,433	727,433	
Accrued payroll and employee benefits	228,624	291,206	
Other payables and accrued liabilities	5,507,880	5,250,539	
Income taxes payable	219,307	1,108,038	
Total current liabilities	17,331,194	20,434,352	
Loans from credit union	4,917,007	2,980,065	
Deferred gain on sale-leaseback	100,820	155,110	
Lease liability - non-current	20,299	152,233	
Derivative liability	716,901	2,063,534	
Total liabilities (including amounts of the consolidated VIE without recourse to the Company of \$16,668,603 and \$17,924,475 as of June 30, 2022 and December 31, 2021, respectively)	23,086,221	25,785,294	
Commitments and Contingencies			
Stockholders' Equity			
Common stock, 500,000,000 shares authorized, \$0.001 par value per share, 99,049,900 shares issued and outstanding as of June 30, 2022 and December, 31,2021.	99,050	99,050	
Additional paid-in capital	88,927,787	88,927,787	
Statutory earnings reserve	6,080,574	6,080,574	
Accumulated other comprehensive (loss) income	(102,441)	10,496,168	
Retained earnings	107,370,202	110,146,329	
Total stockholders' equity	202,375,172	215,749,908	
Total Liabilities and Stockholders' Equity	\$ 225,461,393	\$ 241,535,202	

See accompanying notes to condensed consolidated financial statements.

IT TECH PACKAGING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED MARCH 31, JUNE 30, 2022 AND 2021
(Uaudited)

	Three Months Ended					
	March 31,		June 30,		Six Months Ended	
	2022	2021	2022	2021	2022	2021
Revenues	\$ 15,481,618	\$ 24,209,427	\$ 31,788,884	\$ 46,534,915	\$ 47,270,502	\$ 70,744,342
Cost of sales	(15,171,173)	(22,378,422)	(31,154,847)	(43,505,895)	(46,326,020)	(65,884,317)
Gross Profit	310,445	1,831,005	634,037	3,029,019	944,482	4,860,024
Selling, general and administrative expenses	(3,300,881)	(2,555,318)	(1,869,802)	(2,597,611)	(5,170,683)	(5,152,929)
Gain on acquisition	34,003	-	(1,840)	—	32,163	—
Loss from Operations	(2,956,433)	(724,313)				
(Loss) Income from Operations			(1,237,605)	431,408	(4,194,038)	(292,905)
Other Income (Expense):						
Interest income	3,455	4,333	4,924	11,719	8,379	16,052
Subsidy income	-	196,787	—	1,104	—	197,891
Interest expense	(270,813)	(278,901)	(259,106)	(283,899)	(529,919)	(562,800)
Gain (Loss) on derivative liability	386,588	(3,636,967)	960,045	4,509,007	1,346,633	872,040
Loss before Income Taxes	(2,837,203)	(4,439,061)				
(Loss) Income before Income Taxes			(531,742)	4,669,339	(3,368,945)	230,278
Provision for Income Taxes	348,989	100,205	243,829	(5,122,587)	592,818	(5,022,382)
Net Loss	(2,488,214)	(4,338,856)	(287,913)	(453,248)	(2,776,127)	(4,792,104)
Other Comprehensive Income (Loss)						
Other Comprehensive (Loss) Income						
Foreign currency translation adjustment	926,138	(1,468,770)	(11,524,747)	3,416,162	(10,598,609)	1,947,392
Total Comprehensive Loss	<u>\$ (1,562,076)</u>	<u>\$ (5,807,626)</u>				
Total Comprehensive (Loss) Income			<u>\$ (11,812,660)</u>	<u>\$ 2,962,914</u>	<u>\$ (13,374,736)</u>	<u>\$ (2,844,712)</u>
Losses Per Share:						
Basic and Diluted Losses per Share	\$ (0.03)	\$ (0.12)	\$ (0.003)	\$ (0.01)	\$ (0.03)	\$ (0.10)
Outstanding - Basic and Diluted	<u>99,049,900</u>	<u>36,156,280</u>	<u>99,049,900</u>	<u>46,638,550</u>	<u>99,049,900</u>	<u>46,638,550</u>

See accompanying notes to condensed consolidated financial statements.

IT TECH PACKAGING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE SIX MONTHS ENDED MARCH 31, JUNE 30, 2022 AND 2021
(Unaudited)

	Three Months Ended	
	March 31,	
	2022	2021
Cash Flows from Operating Activities:		
Net income	\$ (2,488,214)	\$ (4,338,856)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,773,236	4,092,487
(Gain) Loss on derivative liability	(386,588)	3,636,967
Gain on acquisition	(34,001)	-
Allowance for bad debts	4,211	52,018
Deferred tax	(348,989)	(589,094)
Changes in operating assets and liabilities:		
Accounts receivable	(98,921)	(2,920,798)
Prepayments and other current assets	3,056,189	(3,645,323)
Inventories	1,515,515	(6,270,151)
Accounts payable	62,315	1,785,742
Related parties	-	(311,679)
Accrued payroll and employee benefits	(14,181)	86,375
Other payables and accrued liabilities	483,666	(84,719)
Income taxes payable	<u>(1,112,820)</u>	<u>226,699</u>
Net Cash Provided by (Used in) Operating Activities	<u>4,411,418</u>	<u>(8,280,332)</u>
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(368,504)	(44,599)
Acquisition of land	<u>(6,807,468)</u>	<u>-</u>
Net Cash Used in Investing Activities	<u>(7,175,972)</u>	<u>(44,599)</u>
Cash Flows from Financing Activities:		
Proceeds from issuance of shares and warrants, net	-	41,837,553
Payment of capital lease obligation	(51,708)	(43,230)
Loan repaid by a related party	<u>6,945,022</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>6,893,314</u>	<u>41,794,323</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	<u>28,071</u>	<u>(170,838)</u>
Net Increase in Cash and Cash Equivalents	<u>4,156,831</u>	<u>33,298,554</u>
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	<u>11,201,612</u>	<u>4,142,437</u>
Cash, Cash Equivalents and Restricted Cash - End of Period	<u>\$ 15,358,443</u>	<u>\$ 37,440,991</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest, net of capitalized interest cost	\$ 85,094	\$ 97,642
Cash paid for income taxes	<u>\$ 1,112,820</u>	<u>\$ 262,191</u>
Cash and bank balances	15,358,443	37,440,991
Restricted cash	-	-
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>15,358,443</u>	<u>37,440,991</u>
Six Months Ended		
June 30,		
	2022	2021
Cash Flows from Operating Activities:		
Net income	\$ (2,776,127)	\$ (4,792,104)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,592,319	8,166,403
(Gain) Loss on derivative liability	(1,346,633)	(872,040)
Gain on acquisition	(33,178)	—
(Recovery from) Allowance for bad debts	(14,731)	53,074

Deferred tax	(821,225)	3,764,689
Changes in operating assets and liabilities:		
Accounts receivable	845,450	(3,229,340)
Prepayments and other current assets	1,963,348	(8,060,524)
Inventories	(1,111,160)	(10,412,117)
Accounts payable	7,588	144,206
Related parties	—	(860,721)
Accrued payroll and employee benefits	(49,534)	86,928
Other payables and accrued liabilities	553,308	15,529
Income taxes payable	(859,643)	425,654
Net Cash Provided by (Used in) Operating Activities	3,949,782	(15,570,363)
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(681,640)	(171,541)
Acquisition of land	(6,642,665)	—
Net Cash Used in Investing Activities	(7,324,305)	(171,541)
Cash Flows from Financing Activities:		
Proceeds from issuance of shares and warrants, net	—	41,837,553
Repayment of bank loans	—	(77,301)
Payment of capital lease obligation	(102,902)	(88,661)
Loan repaid by a related party	6,776,889	—
Net Cash Provided by Financing Activities	6,673,987	41,671,591
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(156,999)	201,419
Net Increase in Cash and Cash Equivalents	3,142,465	26,131,106
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	11,201,612	4,142,437
Cash, Cash Equivalents and Restricted Cash - End of Period	\$ 14,344,077	\$ 30,273,543
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest, net of capitalized interest cost	\$ 165,629	\$ 312,344
Cash paid for income taxes	\$ 1,088,049	\$ 265,450
Cash and bank balances	14,344,077	30,273,543
Restricted cash	—	—
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	14,344,077	30,273,543

See accompanying notes to condensed consolidated financial statements.

IT TECH PACKAGING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(Unaudited)

	Common Stock		Additional Paid-in Capital	Statutory Earnings Reserve	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total
	Shares	Amount					
Balance at December 31, 2020	28,535,816	\$ 28,536	\$ 53,989,548	\$ 6,080,574	\$ 5,740,722	\$ 109,240,794	\$ 175,080,174
Issuance of shares to institutional investors	26,181,818	26,182	8,002,488				8,028,670
Issuance of shares to public investors	29,277,866	29,278	15,585,867				15,615,145
Exercise of warrants	15,054,400	15,054	11,349,884				11,364,938
Foreign currency translation adjustment					(1,468,772)		(1,468,772)
Net income						(4,338,856)	(4,338,856)
Balance at March 31, 2021	<u>99,049,900</u>	<u>\$ 99,050</u>	<u>\$ 88,927,787</u>	<u>\$ 6,080,574</u>	<u>\$ 4,271,950</u>	<u>\$ 104,901,938</u>	<u>\$ 204,281,299</u>
Balance at December 31, 2021	99,049,900	\$ 99,050	\$ 88,927,787	\$ 6,080,574	\$ 10,496,168 926,138	\$ 110,146,329	\$ 215,749,908 926,138
Foreign currency translation adjustment							
Net income						(2,488,214)	(2,488,214)
Balance at March 31, 2022	<u>99,049,900</u>	<u>\$ 99,050</u>	<u>\$ 88,927,787</u>	<u>\$ 6,080,574</u>	<u>\$ 11,422,306</u>	<u>\$ 107,658,115</u>	<u>\$ 214,187,832</u>

IT TECH PACKAGING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021
(Uaudited)

	Accumulated						Total
	Common Stock		Additional Paid-in Capital	Statutory Earnings Reserve	Other Comprehensive Income (loss)	Retained Earnings	
Shares	Amount						
Balance at December 31, 2020	28,535,816	\$ 28,536	\$ 53,989,548	\$ 6,080,574	\$ 5,740,722	\$ 109,240,794	\$ 175,080,174
Issuance of shares to institutional investors	26,181,818	26,182	8,002,488				8,028,670
Issuance of shares to public investors	29,277,866	29,278	15,585,867				15,615,145
Exercise of warrants	15,054,400	15,054	11,349,884				11,364,938
Foreign currency translation adjustment					1,947,392		1,947,392
Net income						(4,792,104)	(4,792,104)
Balance at June 30, 2021	<u>99,049,900</u>	<u>\$ 99,050</u>	<u>\$ 88,927,787</u>	<u>\$ 6,080,574</u>	<u>\$ 7,688,114</u>	<u>\$ 104,448,690</u>	<u>\$ 207,244,215</u>
Balance at December 31, 2021	99,049,900	\$ 99,050	\$ 88,927,787	\$ 6,080,574	\$ 10,496,168 (10,598,609)	\$ 110,146,329 (2,776,127)	\$ 215,749,908 (10,598,609)
Foreign currency translation adjustment							
Net income							
Balance at June 30, 2022	<u>99,049,900</u>	<u>\$ 99,050</u>	<u>\$ 88,927,787</u>	<u>\$ 6,080,574</u>	<u>\$ (102,441)</u>	<u>\$ 107,370,202</u>	<u>\$ 202,375,172</u>

See accompanying notes to condensed consolidated financial statements.

IT TECH PACKAGING, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Organization and Business Background

IT Tech Packaging, Inc. (the "Company") was incorporated in the State of Nevada on December 9, 2005, under the name "Carlateral, Inc." Through the steps described immediately below, we became the holding company for Hebei Baoding Dongfang Paper Milling Company Limited ("Dongfang Paper"), a producer and distributor of paper products in China, on October 29, 2007.

On August 1, 2018, we changed our corporate name to IT Tech Packaging, Inc.. The name change was effected through a parent/subsidiary short-form merger of IT Tech Packaging, Inc., our wholly-owned Nevada subsidiary formed solely for the purpose of the name change, with and into us. We were the surviving entity. In connection with the name change, our common stock began being traded under a new NYSE symbol, "ITP," and a new CUSIP number, 46527C100, at such time. "ITP".

On June 9, 2022, the Board of Directors of the Company approved a reverse stock split of the Company's issued and outstanding shares of common stock, par value \$0.001 per share (the "Common Stock"), at a ratio of 1-for-10 (the "Reverse Stock Split"). The Reverse Stock Split became effective on July 7, 2022 (the "Effective Date"), and the shares began trading on the split-adjusted basis on the NYSE American under the Company's existing trading symbol "ITP" at market open on July 8, 2022. The new CUSIP number following the Reverse Stock Split will be 46527C209.

On October 29, 2007, pursuant to an agreement and plan of merger (the "Merger Agreement"), the Company acquired Dongfang Zhiye DongfangZhiye Holding Limited ("Dongfang Holding"), a corporation formed on November 13, 2006 under the laws of the British Virgin Islands, and issued the shareholders of Dongfang Holding an aggregate of 7,450,497 (as adjusted for a four-for-one reverse stock split effected in November 2009) shares of our common stock, which shares were distributed pro-rata to the shareholders of Dongfang Holding in accordance with their respective ownership interests in Dongfang Holding. At the time of the Merger Agreement, Dongfang Holding owned all of the issued and outstanding stock and ownership of Dongfang Paper and such shares of Dongfang Paper were held in trust with Zhenyong Liu, Xiaodong Liu and Shuangxi Zhao, for Mr. Liu, Mr. Liu and Mr. Zhao (the original shareholders of Dongfang Paper) to exercise control over the disposition of Dongfang Holding's shares in Dongfang Paper on Dongfang Holding's behalf until Dongfang Holding successfully completed the change in registration of Dongfang Paper's capital with the relevant PRC Administration of Industry and Commerce as the 100% owner of Dongfang Paper's shares. As a result of the merger transaction, Dongfang Holding became a wholly owned subsidiary of the Company, and Dongfang Holding's wholly owned subsidiary, Dongfang Paper, became an indirectly owned subsidiary of the Company.

Dongfang Holding, as the 100% owner of Dongfang Paper, was unable to complete the registration of Dongfang Paper's capital under its name within the proper time limits set forth under PRC law. In connection with the consummation of the restructuring transactions described below, Dongfang Holding directed the trustees to return the shares of Dongfang Paper to their original shareholders, and the original Dongfang Paper shareholders entered into certain agreements with Baoding Shengde Paper Co., Ltd. ("Baoding Shengde") to transfer the control of Dongfang Paper over to Baoding Shengde.

On June 24, 2009, the Company consummated a number of restructuring transactions pursuant to which it acquired all of the issued and outstanding shares of Shengde Holdings Inc., a Nevada corporation. Shengde Holdings Inc. was incorporated in the State of Nevada on February 25, 2009. On June 1, 2009, Shengde Holdings Inc. incorporated Baoding Shengde, a limited liability company organized under the laws of the PRC. Because Baoding Shengde is a wholly-owned subsidiary of Shengde Holdings Inc., it is regarded as a wholly foreign-owned entity under PRC law.

IT TECH PACKAGING, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

To ensure proper compliance of the Company's control over the ownership and operations of Dongfang Paper with certain PRC regulations, on June 24, 2009, the Company entered into a series of contractual agreements (the "Contractual Agreements") with Dongfang Paper and Dongfang Paper Equity Owners via the Company's wholly owned subsidiary Shengde Holdings Inc. ("Shengde Holdings") a Nevada corporation and Baoding Shengde Paper Co., Ltd. ("Baoding Shengde"), a wholly foreign-owned enterprise in the PRC with an original registered capital of \$10,000,000 (subsequently increased to \$60,000,000 in June 2010). Baoding Shengde is mainly engaged in production and distribution of digital photo paper and single-use face masks and is 100% owned by Shengde Holdings. Prior to February 10, 2010, the Contractual Agreements included (i) Exclusive Technical Service and Business Consulting Agreement, which generally provides that Baoding Shengde shall provide exclusive technical, business and management consulting services to Dongfang Paper, in exchange for service fees including a fee equivalent to 80% of Dongfang Paper's total annual net profits; (ii) Loan Agreement, which provides that Baoding Shengde will make a loan in the aggregate principal amount of \$10,000,000 to Dongfang Paper Equity Owners in exchange for each such shareholder agreeing to contribute all of its proceeds from the loan to the registered capital of Dongfang Paper; (iii) Call Option Agreement, which generally provides, among other things, that Dongfang Paper Equity Owners irrevocably grant to Baoding Shengde an option to purchase all or part of each owner's equity interest in Dongfang Paper. The exercise price for the options shall be RMB1 which Baoding Shengde should pay to each of Dongfang Paper Equity Owner for all their equity interests in Dongfang Paper; (iv) Share Pledge Agreement, which provides that Dongfang Paper Equity Owners will pledge all of their equity interests in Dongfang Paper to Baoding Shengde as security for their obligations under the other agreements described in this section. Specifically, Baoding Shengde is entitled to dispose of the pledged equity interests in the event that Dongfang Paper Equity Owners breach their obligations under the Loan Agreement or Dongfang Paper fails to pay the service fees to Baoding Shengde pursuant to the Exclusive Technical Service and Business Consulting Agreement; and (v) Proxy Agreement, which provides that Dongfang Paper Equity Owners shall irrevocably entrust a designee of Baoding Shengde with such shareholder's voting rights and the right to represent such shareholder to exercise such owner's rights at any equity owners' meeting of Dongfang Paper or with respect to any equity owner action to be taken in accordance with the laws and Dongfang Paper's Articles of Association. The terms of the agreement are binding on the parties for as long as Dongfang Paper Equity Owners continue to hold any equity interest in Dongfang Paper. An **Dongfang** **AnDongfang** Paper Equity Owner will cease to be a party to the agreement once it transfers its equity interests with the prior approval of Baoding Shengde. As the Company had controlled Dongfang Paper since July 16, 2007 through Dongfang Holding and the trust until June 24, 2009 and continued to control Dongfang Paper through Baoding Shengde and the Contractual Agreements, the execution of the Contractual Agreements is considered as a business combination under common control.

On February 10, 2010, Baoding Shengde and the Dongfang Paper Equity Owners entered into a Termination of Loan Agreement to terminate the above-mentioned \$10,000,000 Loan Agreement. Because of the Company's decision to fund future business expansions through Baoding Shengde instead of Dongfang Paper, the \$10,000,000 loan contemplated was never made prior to the point of termination. The parties believe the termination of the Loan Agreement does not in itself compromise the effective control of the Company over Dongfang Paper and its businesses in the PRC.

An agreement was also entered into among Baoding Shengde, Dongfang Paper and the Dongfang Paper Equity Owners on December 31, 2010, reiterating that Baoding Shengde is entitled to 100% of the distributable profit of Dongfang Paper, pursuant to the above- mentioned Contractual Agreements. In addition, Dongfang Paper and the Dongfang Paper Equity Owners shall not declare any of Dongfang Paper's unappropriated earnings as dividend, including the unappropriated earnings of Dongfang Paper from its establishment to 2010 and thereafter.

On June 25, 2019, Dongfang Paper entered into an acquisition agreement with the shareholder of Hebei Tengsheng Paper Co., Ltd. ("Hebei Tengsheng"), a limited liability company organized under the laws of the PRC, pursuant to which Dongfang Paper will acquire Hebei Tengsheng. Full payment of the consideration in the amount of RMB320 million (approximately \$45 million) was made on February 23, 2022.

The Company has no direct equity interest in Dongfang Paper. However, through the Contractual Agreements described above, the Company is found to be the primary beneficiary (the "Primary Beneficiary") of Dongfang Paper and is deemed to have the effective control over Dongfang Paper's activities that most significantly affect its economic performance, resulting in Dongfang Paper and its subsidiary, being treated as a controlled variable interest entity of the Company in accordance with Topic 810 - Consolidation of the Accounting Standards Codification (the "ASC") issued by the Financial Accounting Standard Board (the "FASB"). The revenue generated from Dongfang Paper and Hebei Tengsheng for the three months ended **March 31, 2022** **June 30, 2022** and 2021 was accounted for **99.63%** **99.73%** and **99.46%** **99.77%** of the Company's total revenue, respectively. The revenue generated from Dongfang Paper and Hebei Tengsheng for the six months ended June 30, 2022 and 2021 was accounted for 99.70% and 99.66% of the Company's total revenue, respectively. Dongfang Paper and Hebei Tengsheng also accounted for **86.52%** **87.11%** and 84.13% of the total assets of the Company as of **March 31, 2022** **June 30, 2022** and December 31, 2021, respectively.

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As of **March 31, 2022** **June 30, 2022** and December 31, 2021, details of the Company's subsidiaries and variable interest entities are as follows:

Name	Date of Incorporation or Establishment	Place of Incorporation or Establishment	Percentage of Ownership	
	Incorporation or Establishment	Incorporation or Establishment	Percentage of Ownership	Principal Activity
Name				
<i>Subsidiary:</i>				
Dongfang Holding	November 13, 2006	BVI	100%	Inactive investment holding
Shengde Holdings	February 25, 2009	State of Nevada	100%	Investment holding
Baoding Shengde	June 1, 2009	PRC	100%	Paper production and distribution
<i>Variable interest entity ("VIE"):</i>				
Dongfang Paper	March 10, 1996	PRC	Control* Control*	Paper production and distribution

* Dongfang Paper is treated as a 100% controlled variable interest entity of the Company.

However, uncertainties in the PRC legal system could cause the Company's current ownership structure to be found to be in violation of any existing and/or future PRC laws or regulations and could limit the Company's ability, through its subsidiary, to enforce its rights under these contractual arrangements. Furthermore, shareholders of the VIE may have interests that are different than those of the Company, which could potentially increase the risk that they would seek to act contrary to the terms of the aforementioned agreements.

In addition, if the current structure or any of the contractual arrangements were found to be in violation of any existing or future PRC law, the Company may be subject to penalties, which may include, but not be limited to, the cancellation or revocation of the Company's business and operating licenses, being required to restructure the Company's operations or being required to discontinue the Company's operating activities. The imposition of any of these or other penalties may result in a material and adverse effect on the Company's ability to conduct its operations. In such case, the Company may not be able to operate or control the VIE, which may result in deconsolidation of the VIE. The Company believes the possibility that it will no longer be able to control and consolidate its VIE will occur as a result of the aforementioned risks and uncertainties is remote.

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The Company has aggregated the financial information of Dongfang Paper in the table below. The aggregate carrying value of Dongfang Paper's assets and liabilities (after elimination of intercompany transactions and balances) in the Company's condensed consolidated balance sheets as of **March 31, 2022** **June 30, 2022** and December 31, 2021 are as follows:

The Company and its consolidated subsidiaries are not required to provide financial support to the VIE, and no creditor (or beneficial interest holders) of the VIE have recourse to the assets of Company unless the Company separately agrees to be subject to such claims. There are no terms in any agreements or arrangements, implicit or explicit, which require the Company or its subsidiaries to provide financial support to the VIE. However, if the VIE does require financial support, the Company or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to the VIE.

	March 31, 2022	December 31, 2021
ASSETS		
Current Assets		
Cash and bank balances	\$ 2,724,233	\$ 1,921,407
Restricted cash	-	-
Accounts receivable	4,984,738	4,867,759
Inventories	4,343,573	5,823,762
Prepayments and other current assets	17,582,379	19,942,878
Due from related parties	892,743	888,893
Total current assets	30,527,666	33,444,699
Property, plant and equipment		
Prepayment on property, plant and equipment		41,877,755
Finance lease right-of-use assets, net	2,254,357	2,286,459
Property, plant, and equipment, net	163,940,060	116,054,387
Deferred tax asset non-current	10,080,698	9,547,741
Total Assets	\$ 206,802,781	\$ 203,211,041
LIABILITIES		
Current Liabilities		
Short-term bank loans	\$ 5,984,374	\$ 5,958,561
Current portion of long-term loans from credit union	2,299,865	2,289,945
Lease liability	228,051	210,161
Accounts payable	72,616	10,255
Advance from customers	39,866	39,694
Due to related parties	-	-
Accrued payroll and employee benefits	263,376	279,513
Other payables and accrued liabilities	5,143,679	4,740,900
Income taxes payable	-	1,108,038
Total current liabilities	14,031,827	14,637,067
Long-term Liabilities		
Loans from credit union	2,992,974	2,980,065
Deferred gain on sale-leaseback	131,185	155,110
Lease liability - non-current	84,204	152,233
Total liabilities	\$ 17,240,190	\$ 17,924,475
	June 30, 2022	December 31, 2021
ASSETS		
Current Assets		
Cash and bank balances	\$ 3,693,419	\$ 1,921,407
Restricted cash	-	-
Accounts receivable	3,820,123	4,867,759
Inventories	6,609,820	5,823,762
Prepayments and other current assets	17,304,373	19,942,878
Due from related parties	844,431	888,893

Total current assets	32,272,166	33,444,699
Prepayment on property, plant and equipment		41,877,755
Finance lease right-of-use assets, net	2,092,625	2,286,459
Property, plant, and equipment, net	152,023,115	116,054,387
Deferred tax asset non-current	10,005,097	9,547,741
Total Assets	<u>\$ 196,393,003</u>	<u>\$ 203,211,041</u>
LIABILITIES		
Current Liabilities		
Short-term bank loans	\$ 5,958,519	\$ 5,958,561
Current portion of long-term loans from credit union	4,410,406	2,289,945
Lease liability	224,219	210,161
Accounts payable	17,098	10,255
Advance from customers	37,709	39,694
Accrued payroll and employee benefits	220,367	279,513
Other payables and accrued liabilities	4,863,858	4,740,900
Income taxes payable	219,307	1,108,038
Total current liabilities	15,951,483	14,637,067
Loans from credit union	596,001	2,980,065
Deferred gain on sale-leaseback	100,820	155,110
Lease liability - non-current	20,299	152,233
Total liabilities	<u>\$ 16,668,603</u>	<u>\$ 17,924,475</u>

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(2) Basis of Presentation and Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for reporting on Form 10-Q. Accordingly, certain information and notes required by the United States of America generally accepted accounting principles ("GAAP") for annual financial statements are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2021 of the Company, and its subsidiaries and variable interest entity (which we sometimes refer to collectively as "the Company", "we", "us" or "our").

Principles of Consolidation

Our unaudited condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of our financial position and results of operations. Such adjustments are of a normal recurring nature, unless otherwise noted. The balance sheet as of **March 31, 2022** **June 30, 2022** and the results of operations for the three months ended **March 31, 2022** **June 30, 2022** are not necessarily indicative of the results to be expected for any future period.

Our unaudited condensed consolidated financial statements are prepared in accordance with GAAP. These accounting principles require us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We believe that the estimates, judgments and assumptions are reasonable, based on information available at the time they are made. Actual results could differ materially from those estimates.

Valuation of long-lived asset

The Company reviews the carrying value of long-lived assets to be held and used when events and circumstances warrants such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset and intangible assets. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets and intangible assets to be disposed are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

Fair Value Measurements

The Company has adopted ASC Topic 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. It does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. It establishes a three-level valuation hierarchy of valuation techniques based on observable and unobservable inputs, which may be used to measure fair value and include the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

The Company estimates the fair value of financial instruments using the available market information and valuation methods. Considerable judgment is required in estimating fair value. Accordingly, the estimates of fair value may not be indicative of the amounts that the Company could realize in a current market exchange. As of **March 31, 2022** **June 30, 2022** and December 31, 2021, the carrying value of the Company's short term financial instruments, such as cash and cash equivalents, accounts receivable, accounts and notes payable, short-term bank loans, balance due to a related party and obligation under capital lease, approximate at their fair values because of the short maturity of these instruments; while loans from credit union and loans from a related party approximate at their fair value as the interest rates thereon are close to the market rates of interest published by the People's Bank of China.

Management determined that liabilities created by beneficial conversion features associated with the issuance of certain warrants (see "*Derivative liabilities*" under Note (10)), meet the criteria of derivatives and are required to be measured at fair value. The fair value of these derivative liabilities was determined based on management's estimate of the expected future cash flows required to settle the liabilities. This valuation technique involves management's estimates and judgment based on unobservable inputs and is classified in level 3.

Non-Recurring Fair Value Measurements

The Company reviews long-lived assets for impairment annually or more frequently if events or changes in circumstances indicate the possibility of impairment. For the continuing operations, long-lived assets are measured at fair value on a nonrecurring basis when there is an indicator of impairment, and they are recorded at fair value only when impairment is recognized. For discontinued operations, long-lived assets are measured at the lower of carrying amount or fair value less cost to sell. The fair value of these assets were determined using models with significant unobservable inputs which were classified as Level 3 inputs, primarily the discounted future cash flow.

Share-Based Compensation

The Company uses the fair value recognition provision of ASC Topic 718, *Compensation-Stock Compensation*, which requires the Company to expense the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of such instruments over the vesting period.

The Company also applies the provisions of ASC Topic 505-50, *Equity Based Payments to Non-Employees* to account for stock-based compensation awards issued to non-employees for services. Such awards for services are recorded at either the fair value of the consideration received or the fair value of the instruments issued in exchange for such services, whichever is more reliably measurable.

(3) Restricted Cash

Restricted cash was nil as of **March 31, 2022** **June 30, 2022** and December 31, 2021.

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(4) Inventories

Raw materials inventory includes mainly recycled paper board and recycled white scrap paper. Finished goods include mainly products of corrugating medium paper, offset printing paper and tissue paper products. Inventories consisted of the following as of **March 31, 2022** **June 30, 2022** and **December 31, 2021**:

	March 31, 2022	December 31, 2021	June 30, 2022	December 31, 2021
	2022	2021	2022	2021
Raw Materials				
Recycled paper board	\$ 2,373,036	\$ 2,097,062	\$ 5,289,833	\$ 2,097,062
Recycled white scrap paper	11,859	11,808	11,217	11,808
Gas	35,213	32,753	148,119	32,753
Base paper and other raw materials	278,958	206,531	249,447	206,531
	2,699,066	2,348,154	5,698,616	2,348,154
Semi-finished Goods				
Finished Goods	398,665	96,087	107,309	96,087
Total inventory, gross	1,256,945	3,400,654	823,732	3,400,654
Inventory reserve	- -	- -	- -	- -
Total inventory, net	\$ 4,354,676	\$ 5,844,895	\$ 6,629,657	\$ 5,844,895

(5) Prepayments and other current assets

Prepayments and other current assets consisted of the following as of **March 31, 2022** **June 30, 2022** and **December 31, 2021**:

	March 31, 2022	December 31, 2021	June 30, 2022	December 31, 2021
	2022	2021	2022	2021
Prepaid land lease	\$ 189,030	\$ 188,215	\$ 178,800	\$ 188,215
Prepayment for purchase of materials	6,965,186	9,190,527	7,450,713	9,190,527
Prepayment for purchase of equipment	1,114,206	980,786	1,053,908	980,786
Value-added tax recoverable	14,735,418	14,740,296	13,910,314	14,740,296
Others	21,349	696,816	213,565	696,816
	\$ 23,025,189	\$ 25,796,640	\$ 22,807,300	\$ 25,796,640

(6) Property, plant and equipment, net

As of **March 31, 2022** **June 30, 2022** and **December 31, 2021**, property, plant and equipment consisted of the following:

	March 31, 2022	December 31, 2021	June 30, 2022	December 31, 2021
	2022	2021	2022	2021
Property, Plant, and Equipment:				
Land use rights	\$ 63,287,459	\$ 12,790,062	\$ 59,862,539	\$ 12,790,062
Building and improvements	74,932,903	74,609,698	70,877,768	74,609,698
Machinery and equipment	171,073,452	170,149,367	161,815,491	170,149,367
Vehicles	797,986	725,838	754,802	725,838
Construction in progress	-	-	312,191	-
Totals	310,091,800	258,274,965	293,622,791	258,274,965
Less: accumulated depreciation and amortization	(136,013,884)	(131,687,537)	(132,427,407)	(131,687,537)
Property, Plant and Equipment, net	\$ 174,077,916	\$ 126,587,428	\$ 161,195,384	\$ 126,587,428

As of **March 31, 2022** **June 30, 2022** and **December 31, 2021**, land use rights represented twenty three parcels of state-owned lands located in Xushui District and Wei County of Hebei Province in China, with lease terms of 50 years expiring in 2061 and 2068, respectively.

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As of **March 31, 2022** **June 30, 2022** and December 31, 2021, certain property, plant and equipment of Dongfang Paper with net values of **\$928,347** **\$682,421** and **\$1,130,333**, respectively, have been pledged pursuant to a long-term loan from credit union of Dongfang Paper. Land use right of Dongfang Paper with net values of **\$5,990,831** **\$5,631,283** and **\$6,002,195**, respectively, as of **March 31, 2022** **June 30, 2022** and December 31, 2021 was pledged for the bank loan from Industrial & Commercial Bank of China, China ("ICBC"). Land use right of Hebei Tengsheng with net value of **\$5,704,148** **\$5,364,917** and **\$5,690,261**, respectively, as of **March 31, 2022** **June 30, 2022** and December 31, 2021 was pledged for a long-term loan from credit union of Baoding Shengde. In addition, land use right of Hebei Tengsheng with net value of **\$4,417,524** **\$4,151,619** and **\$4,407,889**, respectively, as of **March 31, 2022** **June 30, 2022** and December 31, 2021 was pledged for another long-term loan from credit union of Baoding Shengde. See "Short-term bank loans" under Note (7), Loans Payable, for details of the transaction and asset collaterals.

Depreciation and amortization of property, plant and equipment was **\$3,773,236** **\$3,819,083** and **\$4,089,067** **\$4,073,916** for the three months ended **March 31, 2022** **June 30, 2022** and 2021, respectively. Depreciation and amortization of property, plant and equipment was **\$7,592,319** and **\$8,166,403** for the six months ended **June 30, 2022** and 2021, respectively.

(7) Financing with Sale-Leaseback

The Company entered into a sale-leaseback arrangement (the "Lease Financing Agreement") with TAC Leasing Co., Ltd. ("TLCL") on August 6, 2020, for a total financing proceeds in the amount of RMB 16 million (approximately US\$2.5 million). Under the sale-leaseback arrangement, Hebei Tengsheng sold the Leased Equipment to TLCL for 16 million (approximately US\$2.5 million). Concurrent with the sale of equipment, Hebei Tengsheng leases back the equipment sold to TLCL for a lease term of three years. At the end of the lease term, Hebei Tengsheng may pay a nominal purchase price of RMB 100 (approximately \$16) to TLCL and buy back the Leased Equipment. The Leased Equipment in amount of **\$2,349,452** was recorded as right of use assets and the net present value of the minimum lease payments was recorded as lease liability and calculated with TLCL's implicit interest rate of 15.6% per annum and stated at **\$567,099** at the inception of the lease on August 17, 2020.

Hebei Tengsheng made payments due according to the schedule. The balance of Leased Equipment net of amortization was **\$2,254,357** **\$2,092,625** and **\$2,286,459** as of **March 31, 2022** **June 30, 2022** and December 31, 2021, respectively. The lease liability was **\$312,255** **\$244,518** and **\$362,394**, and its current portion in the amount of **\$228,051** **\$224,219** and **\$210,161** as of **March 31, 2022** **June 30, 2022** and December 31, 2021, respectively.

Amortization of the Leased Equipment was **\$42,006** **\$39,972** and **\$40,997** for **\$41,457** for the three months ended **March 31, 2022** **June 30, 2022** and 2021. Amortization of the Leased Equipment was **\$81,978** and **\$82,454** for the six months ended **June 30, 2022** and 2021. Total interest expenses for the sale-leaseback arrangement was **\$13,507** **\$10,862** and **\$20,418** **\$18,932** for the three months ended **March 31, 2022** **June 30, 2022** and 2021. Total interest expenses for the sale-leaseback arrangement was **\$24,369** and **\$39,350** for the six months ended **June 30, 2022** and 2021.

As a result of the sale and leaseback, a deferred gain in the amount of **\$430,695** was recorded. The deferred gain is amortized over the lease term and as an offset to amortization of the Leased Equipment.

The future minimum lease payments of the capital lease as of **March 31, 2022** **June 30, 2022** were as follows:

March 31,	Amount	June 30,	Amount
2023	260,861	2023	246,744
2024	86,954	2024	20,562
Less: unearned discount	(35,560)		(22,788)
	312,255		244,518
	(228,051)		(224,219)
	\$ 84,204		\$ 20,299

(8) Loans Payable

Short-term bank loans

On November 25, 2021, the Company entered into a working capital loan agreement with the ICBC, with a balance of **\$5,984,374** **\$5,660,518** and **\$5,958,561** as of **March 31, 2022** **June 30, 2022** and December 31, 2021, respectively. The working capital loan was secured by the land use right of Dongfang Paper as collateral for the benefit of the bank and guaranteed by Mr. Liu. The loan bears a fixed interest rate of 4.785% per annum. The loan will be due and repaid at various installments by November 17, 2022.

As of **March 31, 2022** **June 30, 2022**, there were guaranteed short-term borrowings of **\$5,984,374** **\$5,660,518** and unsecured bank loans of **\$nil**. As of December 31, 2021, there were guaranteed short-term borrowings of **\$5,958,561** and unsecured bank loans of **\$nil**.

The average short-term borrowing rates for the three months ended **March 31, 2022** **June 30, 2022** and 2021 were approximately 4.79%. The average short-term borrowing rates for the six months ended **June 30, 2022** and 2021 were approximately 4.79%.

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Long-term loans from credit union

As of **Mar 31, 2022** **June 30, 2022** and December 31, 2021, loans payable to Rural Credit Union of Xushui District, amounted to **\$9,861,063** **\$9,327,413** and **\$9,818,530**, respectively.

	March 31,	December 31,	June 30,	December 31,
	2022	2021	2022	2021
Rural Credit Union of Xushui District Loan 1	\$ 1,354,715	\$ 1,348,871	\$ 1,281,402	\$ 1,348,871
Rural Credit Union of Xushui District Loan 2	3,938,124	3,921,139	3,725,005	3,921,139
Rural Credit Union of Xushui District Loan 3	2,520,399	2,509,528	2,384,003	2,509,528
Rural Credit Union of Xushui District Loan 4	2,047,825	2,038,992	1,937,003	2,038,992
Total	9,861,063	9,818,530	9,327,413	9,818,530
Less: Current portion of long-term loans from credit union	(6,868,089)	(6,838,465)	(4,410,406)	(6,838,465)
Long-term loans from credit union	\$ 2,992,974	\$ 2,980,065	\$ 4,917,007	\$ 2,980,065

As of **Mar 31, Jun 30, 2022**, the Company's long-term debt repayments for the next coming years were as follows:

	Amount	Amount
Fiscal year		
Remainder of 2022	\$ 6,868,089	\$ 4,410,406
2023	2,992,974	4,917,007
Total	9,861,063	9,327,413

On April 16, 2014, the Company entered into a loan agreement with the Rural Credit Union of Xushui District for a term of 5 years, which was originally due in various installments from June 21, 2014 to November 18, 2018. The loan is guaranteed by an independent third party. Interest payment is due quarterly and bears the rate of 0.64% per month. On November 6, 2018, the loan was renewed for additional 5 years and will be due and payable in various installments from December 21, 2018 to November 5, 2023. As of **March 31, 2022** **June 30, 2022** and December 31, 2021, total outstanding loan balance was **\$1,354,715** **\$1,281,402** and **\$1,348,871**, respectively. Out of the total outstanding loan balance, current portion amounted were **\$330,802** **\$685,401** and **\$329,376** as of **March 31, 2022** **June 30, 2022** and December 31, 2021, respectively, which are presented as current liabilities in the consolidated balance sheet and the remaining balance of **\$1,023,913** **\$596,001** and **\$1,019,495** are presented as non-current liabilities in the consolidated balance sheet as of **March 31, 2022** **June 30, 2022** and December 31, 2021, respectively.

On July 15, 2013, the Company entered into a loan agreement with the Rural Credit Union of Xushui District for a term of 5 years, which was originally due and payable in various installments from December 21, 2013 to July 26, 2018. On June 21, 2018, the loan was extended for additional 5 years and will be due and payable in various installments from December 21, 2018 to June 20, 2023. The loan is secured by certain of the Company's manufacturing equipment with net book value of **\$928,347** **\$682,421** and **\$1,130,333** as of **March 31, 2022** **June 30, 2022** and December 31, 2021, respectively. Interest payment is due quarterly and bears a fixed rate of 0.64% per month. As of **March 31, 2022** **June 30, 2022** and December 31, 2021, the total outstanding loan balance was **\$3,938,124** **\$3,725,005** and **\$3,921,139**, respectively. Out of the total outstanding loan balance, current portion amounted were **\$1,969,062** **\$3,725,005** and **\$1,960,569** as of **March 31, 2022** **June 30, 2022** and December 31, 2021 respectively, which are presented as current liabilities in the consolidated balance sheet and the remaining balance of **\$1,969,062** **\$nil** and **\$1,960,570** are presented as non-current liabilities in the consolidated balance sheet as of **March 31, 2022** **June 30, 2022** and December 31, 2021, respectively.

On April 17, 2019, the Company entered into a loan agreement with the Rural Credit Union of Xushui District for a term of 2 years, which was due and payable in various installments from August 21, 2019 to April 16, 2021. The loan was renewed on March 22, 2021 and December 24, 2021 and extended for additional 3 years in total, which will be due on April 16, 2024 according to the new schedule. The loan is secured by Hebei Tengsheng with its land use right as collateral for the benefit of the credit union. Interest payment is due quarterly and bears a fixed rate of 0.6% per month. As of **March 31, 2022** **June 30, 2022** and December 31, 2021, the total outstanding loan balance was **\$2,520,399** **\$2,384,003** and **\$2,509,528**, respectively. Out of the total outstanding loan balance, current portion amounted were **\$nil** and **\$2,509,528** as of June 30, 2022 and December 31, 2021 respectively, which are presented as current liabilities in the consolidated balance sheet and the remaining balance of **\$2,384,003** and **\$nil** are presented as non-current liabilities in the consolidated balance sheet as of **March 31, 2022** **June 30, 2022** and December 31, 2021, respectively.

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On December 12, 2019, the Company entered into a loan agreement with the Rural Credit Union of Xushui District for a term of 2 years, which is due and payable in various installments from June 21, 2020 to December 11, 2021. The loan was renewed on March 22, 2021 and December 24, 2021 and extended for additional 3 years in total, which will be due on December 11, 2024 according to the new schedule. The loan is secured by Hebei Tengsheng with its land use right as collateral for the benefit of the credit union. Interest payment is due monthly and bears a fixed rate of 7.56% per annum. As of **March 31, 2022** June 30, 2022 and December 31, 2021, the total outstanding loan balance was **\$2,047,825** **\$1,937,003** and **\$2,038,992**, respectively. Out of the total outstanding loan balance, current portion amounted were **\$nil** and **\$2,038,992** as of June 30, 2022 and December 31, 2021 respectively, which are presented as current liabilities in the consolidated balance sheet and the remaining balance of **\$1,937,003** and **\$nil** are presented as non-current liabilities in the consolidated balance sheet as of **March 31, 2022** June 30, 2022 and December 31, 2021, respectively.

Total interest expenses for the short-term bank loans and long-term loans for the three months ended **March 31, 2022** June 30, 2022 and 2021 were **\$257,306** **\$248,244** and **\$258,483**, **\$264,967**, respectively. Total interest expenses for the short-term bank loans and long-term loans for the six months ended June 30, 2022 and 2021 were **\$505,550** and **\$523,450**, respectively.

(9) Related Party Transactions

Mr. Zhenyong Liu, the Company's CEO has loaned money to Dongfang Paper for working capital purposes over a period of time. On January 1, 2013, Dongfang Paper and Mr. Zhenyong Liu renewed the three-year term loan previously entered on January 1, 2010, and extended the maturity date further to December 31, 2015. On December 31, 2015, the Company paid off the loan of \$2,249,279, together with interest of \$391,374 for the period from 2013 to 2015. Approximately **\$403,791** **\$381,938** and **\$402,047** of interest were outstanding to Mr. Zhenyong Liu, which were recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet as of **March 31, 2022** June 30, 2022 and December 31, 2021, respectively.

On December 10, 2014, Mr. Zhenyong Liu provided a loan to the Company, amounted to \$8,742,278 to Dongfang Paper for working capital purpose with an interest rate of 4.35% per annum, which was based on the primary lending rate of People's Bank of China. The unsecured loan was provided on December 10, 2014, and would be originally due on December 10, 2017. During the year of 2016, the Company repaid \$6,012,416 to Mr. Zhenyong Liu, together with interest of \$288,596. In February 2018, the company paid off the remaining balance, together with interest of \$20,400. As of **March 31, 2022** June 30, 2022 and December 31, 2021, approximately **\$47,257** **\$44,700** and **\$47,054** of interest, respectively were outstanding to Mr. Zhenyong Liu, which was recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet.

On March 1, 2015, the Company entered an agreement with Mr. Zhenyong Liu which allows Dongfang Paper to borrow from the CEO an amount up to \$17,201,342 (RMB120,000,000) for working capital purposes. The advances or funding under the agreement are due three years from the date each amount is funded. The loan is unsecured and carries an annual interest rate set on the basis of the primary lending rate of the People's Bank of China at the time of the borrowing. On July 13, 2015, an unsecured amount of \$4,324,636 was drawn from the facility. On October 14, 2016 an unsecured amount of \$2,883,091 was drawn from the facility. In February 2018, the company repaid \$1,507,432 to Mr. Zhenyong Liu. The loan would be originally due on July 12, 2018. Mr. Zhenyong Liu agreed to extend the loan for additional 3 years and the remaining balance will be was due on July 12, 2021. On November 23, 2018, the company Company repaid \$3,768,579 to Mr. Zhenyong Liu, together with interest of \$158,651. In December 2019, the company Company paid off the remaining balance, together with interest of 94,636. As of **March 31, 2022** June 30, 2022 and December 31, 2021, the outstanding interest was **\$216,498** **\$204,782** and **\$215,565**, respectively, which was recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet.

As of **March 31, 2022** June 30, 2022 and December 31, 2021, total amount of loans due to Mr. Zhenyong Liu were **\$nil**. The interest expense incurred for such related party loans were **\$nil** for the three and six months ended **March 31, 2022** June 30, 2022 and 2021. The accrued interest owing to Mr. Zhenyong Liu was approximately **\$667,546** **\$631,420** and **\$664,666**, as of **March 31, 2022** June 30, 2022 and December 31, 2021, respectively, which was recorded in other payables and accrued liabilities.

On December 8, 2021, the Company entered an agreement with Mr. Zhenyong Liu, which allows Mr. Zhenyong Liu to borrow from the Company an amount of \$6,915,176 (RMB44,089,085). The loan will be due on June 29, 2022. The loan is unsecured and carries a fixed interest rate of 3% per annum. The loan was repaid by Mr. Zhenyong Liu in February 2022.

As of **March 31, 2022** June 30, 2022 and December 31, 2021, amount due to shareholder was \$727,433, which represents funds from shareholders to pay for various expenses incurred in the U.S. The amount is due on demand with interest free.

Lease of Headquarters Compound Real Properties from a Related Party

On August 7, 2013, the Company's Audit Committee and the Board of Directors approved the sale of the land use right of the Headquarters Compound (the "LUR"), the office building and essentially all industrial-use buildings in the Headquarters Compound (the "Industrial Buildings"), and three employee dormitory buildings located within the Headquarters Compound (the "Dormitories") to Hebei Fangsheng for cash prices of approximately \$2.77 million, \$1.15 million, and \$4.31 million respectively. Sales of the LUR and the Industrial Buildings were completed in year 2013.

In connection with the sale of the Industrial Buildings, Hebei Fangsheng agreed to lease the Industrial Buildings back to the Company for its original use for a term of up to three years, with an annual rental payment of approximately \$157,522 (RMB1,000,000). The lease agreement expired in August 2016. On August 6, 2016 and August 6, 2018, the Company entered into two supplementary agreements with Hebei Fangsheng, who agreed to extend the lease term for another four years in total, with the same rental payment as original lease agreement.

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(10) Other payables and accrued liabilities

Other payables and accrued liabilities consist of the following:

	March 31,	December 31,	June 30,	December 31,
	2022	2021	2022	2021
Accrued electricity	\$ 175,436	\$ 135,360	\$ 84,676	\$ 135,360
Accrued rental	101,528	61,879	133,284	61,879
Value-added tax payable	190,500	-	128,497	-
Accrued interest to a related party	667,546	664,666	631,420	664,666
Payable for purchase of equipment	3,376,680	3,379,368	3,193,945	3,379,368
Accrued commission to salesmen	16,374	15,274	14,657	15,274
Accrued bank loan interest	1,183,013	992,989	1,296,451	992,989
Others	28,554	1,003	24,950	1,003
Totals	\$ 5,739,631	\$ 5,250,539	\$ 5,507,880	\$ 5,250,539

(11) Derivative Liabilities

The Company analyzed the warrant for derivative accounting consideration under ASC 815, "Derivatives and Hedging, and hedging," and determined that the instrument should be classified as a liability since the warrant becomes effective at issuance resulting in there being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options.

ASC 815 requires we assess the fair market value of derivative liability at the end of each reporting period and recognize any change in the fair market value as other income or expense item.

The Company determined **our** **its** derivative liabilities to be a Level 3 fair value measurement and used the Black-Scholes pricing model to calculate the fair value as of **March 31, 2022** **June 30, 2022**. The Black-Scholes model requires six basic data inputs: the exercise or strike price, time to expiration, the risk-free interest rate, the current stock price, the estimated volatility of the stock price in the future, and the dividend rate. Changes to these inputs could produce a significantly higher or lower fair value measurement. The fair value of each warrant is estimated using the Black-Scholes valuation model. The following weighted-average assumptions were used in the **March 31, 2022** **June 30, 2022**:

	Three months ended	
	June 30, 2022	
	March 31,	2022
Expected term	1.80	2.75
Expected term	2.75	-
Expected average volatility	85% - 102%	114%
Expected dividend yield	-	-
Risk-free interest rate	0.19% - 2.45%	2.99%

The following table summarizes the changes in the derivative liabilities during the three months ended **March 31, 2022** **June 30, 2022**:
Fair Value Measurements Using Significant Observable Inputs (Level 3)

Balance at December 31, 2021	\$ 2,063,534	\$ 2,063,534
Addition of new derivatives recognized as warrant	-	-
Addition of new derivatives recognized as loss on derivatives	-	-
Exercise of warrants	-	-
Change in fair value of derivative liability	(386,588)	(1,346,633)
Balance at March 31, 2022	\$ 1,676,946	\$ 1,346,633
Balance at June 30, 2022	\$ 716,901	\$ 716,901

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(12) Common Stock

Issuance of common stock to investors

On January 20, 2021, the Company offered and sold to certain institutional investors an aggregate of 26,181,818 shares of common stock and 26,181,818 warrants to purchase up to 26,181,818 shares of common stock in a best-efforts public offering for gross proceeds of approximately \$14.4 million. The purchase price for each share of common stock and the corresponding warrant was \$0.55. The exercise price of the warrant was \$0.55 per share.

On March 1, 2021, the Company offered and sold to the public investors an aggregate of 29,277,866 shares of common stock and 14,638,933 warrants to purchase up to 14,638,933 shares of common stock in a firm commitment underwritten public offering for gross proceeds of approximately \$21.9 million. The purchase price for each share of common stock and accompanying warrant was \$0.75. The exercise price of the warrant was \$0.75 per share.

(13) Warrants

Pursuant On April 29, 2020, the Company and certain institutional investors entered into a securities purchase agreement, as amended on May 4, 2020 (the "2020 Purchase Agreement"), pursuant to the 2020 Purchase Agreement, which the Company agreed to sell to such investors an aggregate of 4,400,000 shares of common stock and warrants to purchase up to 4,400,000 shares of common stock in a concurrent private placement (the "May 2020 Warrants"). The exercise price of the May 2020 Warrant is \$0.7425 per share. These warrants are become exercisable on July 23, 2020 and have a term of exercise equal to five years and six months from the date of issuance till July 23, 2025. 880,000 May 2020 Warrants were exercised in February 2021 at the exercise price of \$0.7425 per share and 3,520,000 May 2020 Warrants were outstanding as of March 31, 2022 June 30, 2022. The Company classified warrant as liabilities and accounted for the issuance of the May 2020 Warrants as a derivative.

On January 20, 2021, the Company offered and sold to certain institutional investors an aggregate of 26,181,818 shares of common stock and 26,181,818 warrants to purchase up to 26,181,818 shares of common stock (the "January 2021 Warrants"). The January 2021 Warrants became exercisable commencing on January 20, 2021 at an exercise price of \$0.55 and will expire on January 20, 2026. 14,106,900 January 2021 Warrants were exercised in January and February of 2021 at the exercise price of \$0.55 per share. 12,074,918 January 2021 Warrants were outstanding as of March 31, 2022 June 30, 2022.

On March 1, 2021, the Company offered and sold to the public investors an aggregate of 29,277,866 shares of common stock and 14,638,933 warrants to purchase up to 14,638,933 shares of common stock (the "March 2021 Warrants"). The March 2021 Warrants became exercisable commencing on March 1, 2021 at an exercise price of \$0.75 and will expire on March 1, 2026. 67,500 March 2021 Warrants were exercised in January and March 2021 at the exercise price of \$0.75 per share and 14,571,433 March 2021 Warrants were outstanding as of March 31, 2022 June 30, 2022.

The Company classified warrants as liabilities and accounted for the issuance of the warrants as a derivative.

A summary of stock warrant activities is as below:

	Six months Ended June 30, 2022	
	Number	Weight average exercise price
Outstanding and exercisable at beginning of the period		
Issued during the period	-	
Exercised during the period	-	
Cancelled or expired during the period	-	
Outstanding and exercisable at end of the period	<u>30,166,351</u>	<u>\$ 0.6691</u>
	Three months Ended March 31, 2022	
	Number	Weight average exercise price
Outstanding and exercisable at beginning of the period		
Issued during the period	-	
Exercised during the period	-	
Cancelled or expired during the period	-	
Outstanding and exercisable at end of the period	<u>30,166,351</u>	<u>\$ 0.6691</u>

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The following table summarizes information relating to outstanding and exercisable warrants as of **March 31, 2022** June 30, 2022.

Warrants Outstanding		Warrants Outstanding			Warrants Exercisable			Warrants Outstanding			Warrants Exercisable		
		Number of Shares	Shares	Contractual life (in years)	Weighted Average Exercise Price	Number of Shares	Exercise Price	Number of Shares	Contractual life (in years)	Weighted Average Exercise Price	Number of Shares	Exercise Price	Weighted Average Exercise Price
		30,166,351		3.84	\$ 0.6691	30,166,351	\$ 0.6691	30,166,351	3.59	\$ 0.6691	30,166,351	\$ 0.6691	

Aggregate intrinsic value is the sum of the amounts by which the quoted market price of the Company's stock exceeded the exercise price of the warrants at **March 31, 2022** June 30, 2022 for those warrants for which the quoted market price was in excess of the exercise price ("in-the-money" warrants). The intrinsic value of the warrants as of **March 31, 2022** and **June 30, 2022** and December 31, 2021 are nil.

(14) Earnings Per Share

For the three months ended **March 31, 2022** June 30, 2022 and 2021, basic and diluted net income per share are calculated as follows:

	Three Months Ended March 31,		Three Months Ended June 30,	
	2022	2021	2022	2021
Basic loss per share				
Net loss for the period - numerator	\$ (2,488,214)	\$ (4,338,856)	\$ (287,913)	\$ (453,248)
Weighted average common stock outstanding - denominator	99,049,900	36,156,280	99,049,900	46,638,550
Net loss per share	\$ (0.03)	\$ (0.12)	\$ (0.003)	\$ (0.01)
Diluted income per share				
Net income for the period- numerator	\$ (2,488,214)	\$ (4,338,856)	\$ (287,913)	\$ (453,248)
Weighted average common stock outstanding - denominator	99,049,900	36,156,280	99,049,900	46,638,550
Effect of dilution	-	-	-	-
Weighted average common stock outstanding - denominator	99,049,900	36,156,280	99,049,900	46,638,550
Diluted loss per share	\$ (0.03)	\$ (0.12)	\$ (0.003)	\$ (0.01)

For the six months ended June 30, 2022 and 2021, basic and diluted net income per share are calculated as follows:

	Six Months Ended June 30,	
	2022	2021
Basic loss per share		
Net loss for the period - numerator	\$ (2,776,127)	\$ (4,792,104)
Weighted average common stock outstanding - denominator	99,049,900	46,638,550
Net loss per share	\$ (0.03)	\$ (0.10)
Diluted loss per share		
Net loss for the period - numerator	\$ (2,776,127)	\$ (4,792,104)
Weighted average common stock outstanding - denominator	99,049,900	46,638,550
Effect of dilution	-	-
Weighted average common stock outstanding - denominator	99,049,900	46,638,550
Diluted loss per share	\$ (0.03)	\$ (0.10)

For the three and six months ended **March 31, 2022** June 30, 2022 and 2021 there were no securities with dilutive effect issued and outstanding.

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(15) Income Taxes

United States

The Company and Shengde Holdings are incorporated in the State of Nevada and are subject to the U.S. federal tax and state statutory tax rates up to 34% and 0%, respectively. On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "2017 TCJA"), which significantly changed U.S. tax law. The 2017 TCJA lowered the Company's U.S. statutory federal income tax rate from the highest rate of 35% to 21% effective January 1, 2018, while also imposing a deemed repatriation tax on deferred foreign income which requires companies to pay a one-time transition tax on previously unremitted earnings of non-U.S. subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. The SEC staff issued Staff Accounting Bulletin (SAB) 118, which provides guidance on accounting for enactment effects of the 2017 TCJA. SAB 118 provides a measurement period of up to one year from the 2017 TCJA's enactment date for companies to complete their accounting under ASC 740. In accordance with SAB 118, to the extent that a company's accounting for certain income tax effects of the 2017 TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. If a company cannot determine a provisional estimate to be included in its financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the 2017 TCJA.

Transition tax: The transition tax is a tax on previously untaxed accumulated and current earnings and profits (E&P) of certain of the Company's non-U.S. subsidiaries. To determine the amount of the transition tax, the Company must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. The Company was able to make a reasonable estimate of the transition tax and recorded a provisional obligation and additional income tax expense of approximately \$80,000 in the fourth quarter of 2017. However, the Company is continuing to gather additional information and will consider additional technical guidance to more precisely compute and account for the amount of the transition tax. This amount may change when the Company finalizes the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalizes the amounts held in cash or other specified assets. The 2017 TCJA's transition tax is payable over eight years beginning in 2018.

PRC

Dongfang Paper and Baoding Shengde are PRC operating companies and are subject to PRC Enterprise Income Tax. Pursuant to the PRC New Enterprise Income Tax Law, Enterprise Income Tax is generally imposed at a statutory rate of 25%.

The provisions for income taxes for three months ended **March 31, 2022** **June 30, 2022** and 2021 were as follows:

Provision for Income Taxes	Three Months Ended			
	March 31,			
	2022	2021		
Current Tax Provision PRC	\$ -	\$ 488,889		
Total Provision for (Deferred tax benefit)/ Income Taxes	<u>(348,989)</u>	<u>(589,094)</u>		
	<u>\$ (348,989)</u>	<u>\$ (100,205)</u>		
	Three Months Ended			
Provision for Income Taxes	June 30,			
	2022	2021		
Current Tax Provision U.S.	\$ -	\$ 14,717		
Total Provision for (Deferred tax benefit)/ Income Taxes	<u>228,407</u>	<u>754,087</u>		
	<u>(472,236)</u>	<u>4,353,783</u>		
	<u>\$ (243,829)</u>	<u>\$ 5,122,587</u>		

The provisions for income taxes for six months ended June 30, 2022 and 2021 were as follows:

Provision for Income Taxes	Six Months Ended			
	June 30,			
	2022	2021		
Current Tax Provision U.S.	\$ -	\$ 14,717		
Total Provision for (Deferred tax benefit)/ Income Taxes	<u>228,407</u>	<u>1,242,976</u>		
	<u>(821,225)</u>	<u>3,764,689</u>		
	<u>\$ (592,818)</u>	<u>\$ 5,022,382</u>		

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In addition to the reversible future PRC income tax benefits stemming from the timing differences of items such as recognition of asset disposal gain or loss and asset depreciation, the Company was incorporated in the United States and incurred net operating losses of approximately \$2,508,797 \$776,533 and \$0 \$882,743 for U.S. income tax purposes for the years ended December 31, 2021 and 2019, 2020, respectively. The net operating loss carried forward may be available to reduce future years' taxable income. These carry forwards would expire, if not utilized, during the period of 2030 through 2035. As of March 31, 2022 June 30, 2022, management believed that the realization of all the U.S. income tax benefits from these losses, which generally would generate a deferred tax asset if it can be expected to be utilized in the future, appears not more than likely due to the Company's limited operating history and continuing losses for United States income tax purposes. Accordingly, As of March 31, 2022 June 30, 2022, the Company provided a 100% valuation allowance on the U.S. deferred tax asset benefit to reduce the total deferred tax asset to the amount realizable for the PRC income tax purposes. Management reviews this valuation allowance periodically and will make adjustments as warranted. A summary of the otherwise deductible (or taxable) deferred tax items is as follows:

	March 31,	December 31,	June 30,	December
	2022	2021	2022	31,
Deferred tax assets (liabilities)				
Depreciation and amortization of property, plant and equipment	\$ 15,237,384	\$ 14,754,456	\$ 15,100,193	\$ 14,754,456
Impairment of property, plant and equipment	808,596	783,433	785,428	783,433
Miscellaneous	373,757	342,170	382,146	342,170
Net operating loss carryover of PRC company	246,751	388,620	233,326	388,620
Total deferred tax assets	<u>16,666,488</u>	<u>16,268,679</u>	<u>16,501,093</u>	<u>16,268,679</u>
Less: Valuation allowance	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
Total deferred tax assets, net	<u>\$ 11,666,488</u>	<u>11,268,679</u>	<u>\$ 11,501,093</u>	<u>11,268,679</u>

	Three Months Ended	
	June 30,	2021
PRC Statutory rate		
Effect of different tax jurisdiction	25.0%	25.0%
Effect of reconciling items in the PRC for tax purposes	20.9%	(22.2)%
Change in valuation allowance	106.9%	
Effective income tax rate	<u>45.9%</u>	<u>109.7%</u>
	Three Months Ended	
	March 31,	2021
PRC Statutory rate		
Effect of different tax jurisdiction	25.0%	25.0%
Effect of tax and book difference	(22.7%)	
(Over) Under-provision in previous year	(12.7%)	
Change in valuation allowance		
Effective income tax rate	<u>12.3%</u>	<u>2.3%</u>
	Six Months Ended	
	June 30,	2021
PRC Statutory rate		
Effect of different tax jurisdiction	25.0%	25.0%
Effect of reconciling items in the PRC for tax purposes	(7.4)%	(12.6)%
(Over) Under-provision in previous year		
Change in valuation allowance		2168.6%
Effective income tax rate	<u>17.6%</u>	<u>2181.0%</u>

During the three months ended March 31, 2022 June 30, 2022 and 2021, the effective income tax rate was estimated by the Company to be 12.3% 45.9% and 2.3% 109.7%, respectively.

During the six months ended June 30, 2022 and 2021, the effective income tax rate was estimated by the Company to be 17.6% and 2181.0%, respectively. As of December 31, 2017 June 30, 2022, except for the one-time transition tax under the 2017 TCJA which imposes a U.S. tax liability on all unrepatriated foreign E&Ps, the Company does not believe that its future dividend policy and the available U.S. tax deductions and net operating losses will cause the Company to recognize any other substantial current U.S. federal or state corporate income tax liability in the near future. Nor does it believe that the amount of the repatriation of the VIE's earnings and profits for purposes of paying dividends will change the Company's position that its PRC subsidiary Baoding Shengde and the VIE, Dongfang Paper are considered or are expected to be indefinitely reinvested offshore to support our future capacity expansion. If these earnings are repatriated to the U.S. resulting in U.S. taxable income in the future, or if it is determined that such earnings are to be remitted in the foreseeable future, additional tax provisions would be required.

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The Company has adopted ASC Topic 740-10-05, Income Taxes. To date, the adoption of this interpretation has not impacted the Company's financial position, results of operations, or cash flows. The Company performed self-assessment and the Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed, which in the PRC is usually 5 years. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company's liability for income taxes. Any such adjustment could be material to the Company's results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of **March 31, 2022****June 30, 2022** and December 31, 2021, management considered that the Company had no uncertain tax positions affecting its consolidated financial position and results of operations or cash flows, and will continue to evaluate for any uncertain position in future. There are no estimated interest costs and penalties provided in the Company's consolidated financial statements for the three and six months ended **March 31, 2022****June 30, 2022** and 2021, respectively. The Company's tax positions related to open tax years are subject to examination by the relevant tax authorities and the major one is the China Tax Authority.

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(16) Stock Incentive Plans

2021 Incentive Stock Plan

On November 12, 2021, the Company's Annual General Meeting adopted and approved the 2021 Omnibus Equity Incentive Plan of IT Tech Packaging, Inc. (the "2021 Plan"). Under the 2021 ISP, the Company has reserved a total of 1,500,000 shares of common stock for issuance as or under awards to be made to the directors, officers, employees and/or consultants of the Company and its subsidiaries.

(17) Commitments and Contingencies

Operating Lease

The Company leases 32.95 acres of land from a local government in Xushui District, Baoding City, Hebei, China through a real estate lease with a 30-year term, which expires on December 31, 2031. The lease requires an annual rental payment of approximately \$18,903 \$18,445 (RMB120,000). This operating lease is renewable at the end of the 30-year term.

As mentioned On August 7, 2013, the Company's Audit Committee and the Board of Directors approved the sale of the land use right of the Headquarters Compound (the "LUR"), the office building and essentially all industrial-use buildings in Note (8) Related Party Transactions, the Headquarters Compound (the "Industrial Buildings"), and three employee dormitory buildings located within the Headquarters Compound (the "Dormitories") to Hebei Fangsheng for cash prices of approximately \$2.77 million, \$1.15 million, and \$4.31 million respectively. Sales of the LUR and the Industrial Buildings were completed in year 2013.

In connection with the sale of the Industrial Buildings, to Hebei Fangsheng Hebei Fangsheng agrees agreed to lease the Industrial Buildings back to the Company at for its original use with an annual rental payment of \$157,522 approximately \$153,709 (RMB1,000,000), for a total term of up to five years. The lease agreement is renewable in August 2022.

Future minimum lease payments of all operating leases are as follows:

March 31,	Amount
June 30,	Amount
2023	71,411
2024	18,903
2025	18,903
2026	18,903
2027	18,903
Thereafter	89,789
Total operating lease payments	<u><u>\$ 236,813</u></u>
	<u><u>\$ 182,277</u></u>

Capital commitment

As of March 31, 2022 June 30, 2022, the Company has entered into several contracts for the purchase of paper machine of a new tissue paper production line PM10 and the improvement of Industrial Buildings. Total outstanding commitments under these contracts were \$4,749,646 \$4,492,610 and \$4,700,927 as of March 31, 2022 June 30, 2022 and December 31, 2021, respectively. The Company expected to pay off all the balances within 1-3 years.

Guarantees and Indemnities

The Company agreed with Baoding Huanrun Trading Co., a major supplier of raw materials, to guarantee certain obligations of this third party, and as of March 31, 2022 June 30, 2022 and December 31, 2021, the Company guaranteed its long-term loan from financial institutions amounting to \$4,883,274 \$4,619,006 (RMB31,000,000) and \$4,862,211 (RMB31,000,000), respectively, that matured at various times in 2018-2023. If Huanrun Trading Co., were to become insolvent, the Company could be materially adversely affected.

(18) Segment Reporting

Since March 10, 2010, Baoding Shengde started its operations and thereafter the Company manages its operations through two business operating segments: Dongfang Paper, which produces offset printing paper and corrugating medium paper, and Baoding Shengde, which produces digital photo paper. They are managed separately because each business requires different technology and marketing strategies.

The Company evaluates performance of its operating segments based on net income. Administrative functions such as finance, treasury, and information systems are centralized. However, where applicable, portions of the administrative function expenses are allocated between the operating segments based on gross revenue generated. The operating segments do share facilities in Xushui County, Baoding City, Hebei Province, China. All sales were sold to customers located in the PRC.

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Summarized financial information for the three reportable segments is as follows:

Three Months Ended March 31, 2022						
	Dongfang Paper	Hebei Tengsheng	Baoding Shengde	Not Attributable to Segments	Elimination of Inter-segment	Enterprise-wide, consolidated
Revenues	\$ 15,026,633	\$ 398,388	\$ 56,597	\$ -	\$ -	\$ 15,481,618
Gross profit	857,544	(563,777)	16,678	-	-	310,445
Depreciation and amortization	1,270,492	2,061,937	440,807	-	-	3,773,236
Interest income	1,956	170	1,329	-	-	3,455
Interest expense	173,189	13,507	84,117	-	-	270,813
Income tax expense(benefit)	(80,399)	(411,191)	142,601	-	-	(348,989)
Net income (loss)	(704,673)	(1,605,442)	(231,890)	19,788	34,003	(2,488,214)
Three Months Ended March 31, 2021						
	Dongfang Paper	Hebei Tengsheng	Baoding Shengde	Not Attributable to Segments	Elimination of Inter-segment	Enterprise-wide, consolidated
Revenues	\$ 22,827,553	\$ 1,251,416	\$ 130,458	\$ -	\$ -	\$ 24,209,427
Gross profit	2,262,681	(456,207)	24,531	-	-	1,831,005
Depreciation and amortization	1,833,101	2,257,067	2,319	-	-	4,092,487
Interest income	2,366	206	1,761	-	-	4,333
Interest expense	176,386	20,418	82,097	-	-	278,901
Income tax expense(benefit)	416,855	(515,629)	(1,431)	-	-	(100,205)
Net income (loss)	1,087,209	(1,478,604)	(68,045)	(3,879,416)	-	(4,338,856)
As of March 31, 2022						
	Dongfang Paper	Hebei Tengsheng	Baoding Shengde	Not Attributable to Segments	Elimination of Inter- segment	Enterprise- wide, consolidated
Total assets	\$ 63,717,093	143,085,690	23,402,793	8,805,912	-	239,011,488
As of December 31, 2021						
	Dongfang Paper	Hebei Tengsheng	Baoding Shengde	Not Attributable to Segments	Elimination of Inter- segment	Enterprise- wide, consolidated
Total assets	\$ 109,369,166	93,841,874	29,181,392	9,142,770	-	241,535,202

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Summarized financial information for the three reportable segments is as follows:

Three Months Ended June 30, 2022						
	Dongfang Paper	Hebei Tengsheng	Baoding Shengde	Not Attributable to Segments	Elimination of Inter-segment	Enterprise-wide, consolidated
Revenues	\$ 31,289,918	\$ 411,388	\$ 87,578	\$ -	\$ -	\$ 31,788,884
Gross profit	1,430,181	(814,347)	18,203	-	-	634,037
Depreciation and amortization	1,210,646	2,188,973	419,464	-	-	3,819,083
Interest income	1,787	226	2,911	-	-	4,924
Interest expense	167,431	10,862	80,813	-	-	259,106
Income tax expense(benefit)	134,982	(379,460)	649	-	-	(243,829)
Net income (loss)	650,767	(2,003,653)	(52,758)	1,119,571	(1,840)	(287,913)
Three Months Ended June 30, 2021						
	Dongfang Paper	Hebei Tengsheng	Baoding Shengde	Not Attributable to Segments	Elimination of Inter-segment	Enterprise-wide, consolidated
Revenues	\$ 43,997,853	\$ 2,727,000	\$ 2,794,759	\$ -	\$ (2,984,697)	\$ 46,534,915
Gross profit	3,233,548	(232,251)	27,722	-	-	3,029,019
Depreciation and amortization	927,090	2,283,861	862,965	-	-	4,073,916
Interest income	8,614	600	2,505	-	-	11,719
Interest expense	181,175	18,932	83,792	-	-	283,899
Income tax expense(benefit)	617,975	4,494,672	(4,777)	14,717	-	5,122,587
Net income (loss)	1,847,997	(6,482,307)	(85,776)	4,266,838	-	(453,248)
Six Months Ended June 30, 2022						
	Dongfang Paper	Hebei Tengsheng	Baoding Shengde	Not Attributable to Segments	Elimination of Inter-segment	Enterprise-wide, consolidated
Revenues	\$ 46,316,551	\$ 809,776	\$ 144,175	\$ -	\$ -	\$ 47,270,502
Gross profit	2,287,725	(1,378,124)	34,881	-	-	944,482
Depreciation and amortization	2,481,138	4,250,910	860,271	-	-	7,592,319
Interest income	3,743	396	4,240	-	-	8,379
Interest expense	340,620	24,369	164,930	-	-	529,919
Income tax expense(benefit)	54,583	(790,651)	143,250	-	-	(592,818)
Net income (loss)	(53,906)	(3,609,095)	(284,648)	1,139,359	32,163	(2,776,127)
Six Months Ended June 30, 2021						
	Dongfang Paper	Hebei Tengsheng	Baoding Shengde	Not Attributable to Segments	Elimination of Inter-segment	Enterprise-wide, consolidated
Revenues	\$ 66,825,406	\$ 3,978,416	\$ 2,925,217	\$ -	\$ -	\$ 70,744,342
Gross profit (loss)	5,496,229	(688,458)	52,253	-	-	4,860,024
Depreciation and amortization	2,760,191	4,540,928	865,284	-	-	8,166,403
Interest income	10,980	806	4,266	-	-	16,052
Interest expense	357,561	39,350	165,889	-	-	562,800
Income tax expense(benefit)	1,034,830	3,979,043	(6,208)	-	-	5,022,382
Net income (loss)	2,935,206	(7,960,911)	(153,821)	-	-	(4,792,104)

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As of June 30, 2022

	Dongfang Paper	Hebei Tengsheng	Baoding Shengde	Not Attributable to Segments	Elimination of Inter-segment	Enterprise- wide, consolidated
Total assets	\$ 62,656,905	133,736,099	23,323,044	5,745,345	-	225,461,393
As of December 31, 2021						
	Dongfang Paper	Hebei Tengsheng	Baoding Shengde	Not Attributable to Segments	Elimination of Inter-segment	Enterprise-wide, consolidated
Total assets	\$ 109,369,166	93,841,874	29,181,392	9,142,770	-	241,535,202

(19) Concentration and Major Customers and Suppliers

For the three months ended March 31, 2022 June 30, 2022, the Company had no single customer contributed over 10% of total sales. For the three months ended June 30, 2021, the Company had no single customer contributed over 10% of total sales.

For the six months ended June 30, 2022, the Company had no single customer contributed over 10% of total sales. For the six months ended June 30, 2021, the Company had no single customer contributed over 10% of total sales.

For the three months ended March 31, 2021 June 30, 2022, the Company had no single customer contributed over 10% three major suppliers accounted for 77%, 16% and 5% of total sales. For the three months ended June 30, 2021, the Company had three major suppliers accounted for 79%, 10% and 3% of total purchases.

For the three six months ended March 31, 2022 June 30, 2022, the Company had two three major suppliers accounted for 77%, 15% and 13% 5% of total purchases. For the three six months ended March 31, 2021 June 30, 2021, the Company had two three major suppliers accounted for 81% 80%, 10% and 10% 2% of total purchases.

(20) Concentration of Credit Risk

Financial instruments for which the Company is potentially subject to concentration of credit risk consist principally of cash. The Company places its cash in reputable financial institutions in the PRC and the United States. Although it is generally understood that the PRC central government stands behind all of the banks in China in the event of bank failure, there is no deposit insurance system in China that is similar to the protection provided by the Federal Deposit Insurance Corporation ("FDIC") of the United States as of as of March 31, 2022 June 30, 2022 and December 31, 2021. On May 1, 2015, the new "Deposit Insurance Regulations" was effective in the PRC that the maximum protection would be up to RMB500,000 (\$ 78,762)(\$74,500) per depositor per insured financial institution, including both principal and interest. For the cash placed in financial institutions in the United States, the Company's U.S. bank accounts are all fully covered by the FDIC insurance as of March 31, 2022 June 30, 2022 and December 31, 2021, while for the cash placed in financial institutions in the PRC, the balances exceeding the maximum coverage of RMB500,000 amounted to RMB39,944,290 RMB55,139,496 (\$6,292,223) 8,215,796 as of March 31, 2022 June 30, 2022.

(21) Risks and Uncertainties

The Company is subject to substantial risks from, among other things, intense competition associated with the industry in general, other risks associated with financing, liquidity requirements, rapidly changing customer requirements, foreign currency exchange rates, and operating in the PRC under its various laws and restrictions.

(22) Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 replaced the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 requires use of a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. In October 2019, the FASB issued ASU No. 2019-10, "Financial Instruments-Credit Losses (Topic 326): Effective Dates", to finalize the effective date delays for private companies, not-for-profits, and smaller reporting companies applying the CECL standards. The ASU is effective for reporting periods beginning after December 15, 2022 and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2016-13 on our condensed consolidated financial statements.

(23) Subsequent Event

None. On June 9, 2022, the Board of Directors of the Company approved the Reverse Stock Split, pursuant to Section 78.207 of the Nevada Revised Statutes ("NRS"). The Reverse Stock Split was effected by the Company filing of a Certificate of Change Pursuant to NRS 78.209 with the Secretary of State of the State of Nevada on July 7, 2022. As a result of the Reverse Stock Split, the number of shares of the Company's authorized Common Stock was reduced from 500,000,000 shares to 50,000,000 shares and the issued and outstanding number of shares of the Company's common stock reduced from 99,049,900 to 9,915,920.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Notice Regarding Forward-Looking Statements

The following discussion of the financial condition and results of operations of the Company for the periods ended **March 31, 2022** **June 30, 2022** and 2021 should be read in conjunction with the financial statements and the notes to the financial statements that are included elsewhere in this quarterly report.

In this quarterly report, references to "the Company," "we," "our" and "us" refer to IT Tech Packaging, Inc. and its PRC subsidiary and variable interest entity unless the context requires otherwise.

We make certain forward-looking statements in this report. Statements concerning our future operations, prospects, strategies, financial condition, future economic performance (including growth and earnings), demand for our products, and other statements of our plans, beliefs, or expectations, including the statements contained under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as captions elsewhere in this document, are forward-looking statements. In some cases these statements are identifiable through the use of words such as "anticipate", "believe", "estimate", "expect", "intend", "plan", "project", "target", "can", "could", "may", "should", "will", "would", and similar expressions. We intend such forward-looking statements to be covered by the safe harbor provisions contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and in Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements we make are not guarantees of future performance and are subject to various assumptions, risks, and other factors that could cause actual results to differ materially from those suggested by these forward-looking statements. Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. Indeed, it is likely that some of our assumptions may prove to be incorrect. Our actual results and financial position may vary from those projected or implied in the forward-looking statements and the variances may be material. You are cautioned not to place undue reliance on such forward-looking statements. These risks and uncertainties, together with the other risks described from time to time in reports and documents that we file with the Securities and Exchange Commission (the "SEC") should be considered in evaluating forward-looking statements. In evaluating the forward-looking statements contained in this report, you should consider various factors, including, without limitation, the following: (a) those risks and uncertainties related to general economic conditions, (b) whether we are able to manage our planned growth efficiently and operate profitably, (c) whether we are able to generate sufficient revenues or obtain financing to sustain and grow our operations, and (d) whether we are able to successfully fulfill our primary requirements for cash. We assume no obligation to update forward-looking statements, except as otherwise required under federal securities laws.

Impact of COVID-19 on Our Operations and Financial Performance

Outbreaks of epidemic, pandemic, or contagious diseases such as COVID-19, could have an adverse effect on our business, financial condition, and results of operations. The spread of COVID-19 has resulted in the World Health Organization declaring the outbreak of COVID-19 as a global pandemic. Substantially all of our revenues and workforce are concentrated in China. In response to the intensifying efforts to contain the spread of COVID-19, the Chinese government took a number of actions, which included extending the Chinese New Year holiday, quarantining individuals suspected of having COVID-19, asking residents in China to stay at home and to avoid public gathering, among other things. It is, however, still unclear how the pandemic will evolve going forward, and we cannot assure you whether the COVID-19 pandemic will again bring about significant negative impact on our business operations, financial condition and operating results, including but not limited to negative impact to our total revenues.

While we have resumed business operations, there remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic. The extent to which the COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions taken globally to contain the coronavirus or treat its impact, among others. Existing insurance coverage may not provide protection for all costs that may arise from all such possible events. We are still assessing our business operations and the total impact COVID-19 may have on our results and financial condition, but there can be no assurance that this analysis will enable us to avoid part or all of any impact from the spread of COVID-19 or its consequences, including downturns in business sentiment generally.

Recent Development

On December 7, 2021, the Company announced that it has officially started its surgical masks production after a month of trial production since the end of November 2021. The Company's surgical masks comply with China's pharmaceutical industry standard YY0469-2011.

Results of Operations

Comparison of the Three months ended **March 31, 2022** **June 30, 2022** and 2021

Revenue for the three months ended **March 31, 2022** **June 30, 2022** was **\$15,481,618** **\$31,788,884**, a decrease of **\$8,727,809** **\$14,746,031**, or **36.05%** **31.69%**, from **\$24,209,427** **\$46,534,915** for the same period in the previous year. This was mainly due to the decrease in sales volume of **Regular** **regular** corrugating medium paper, Offset Printing Paper and tissue paper products.

Revenue of Offset Printing Paper, Corrugating Medium Paper and Tissue Paper Products

Revenue from sales of offset printing paper, corrugating medium paper ("CMP") and tissue paper products for the three months ended **March 31, 2022** June 30, 2022 was \$15,425,022, \$31,701,305, a decrease of \$8,653,947, \$14,724,740, or 35.94% 31.72%, from \$24,078,969 \$46,426,045 for the first second quarter of 2021. Total offset printing paper, CMP and tissue paper products sold during the three months ended **March 31, 2022** June 30, 2022 amounted to 29,483 65,968 tonnes, a decrease of 16,075 tonnes, 20,641 tonnes, or 35.28% 23.83%, compared to 45,558 86,609 tonnes sold in the comparable period in the previous year. Production Due to the sporadic situation of CMP was suspended COVID-19 in China, our factory facilities were operated in a limited, transitional basis during January and February and offset printing paper suspended in the first quarter of 2022, due to China's New Year and restriction on production during Beijing Winter Olympics as required by the government, three months ended June 30, 2022. The changes in revenue dollar amount and in quantity sold for the three months ended **March 31, 2022** June 30, 2022 and 2021 are summarized as follows:

Sales Revenue	Three Months Ended		Three Months Ended		Percentage		Three Months Ended		Three Months Ended		C		
	March 31, 2022		March 31, 2021		Change in		Change		June 30, 2022		June 30, 2021		
	Quantity (Tonne)	Amount	Quantity (Tonne)	Amount	Quantity (Tonne)	Amount	Quantity	Amount	Quantity (Tonne)	Amount	Quantity (Tonne)	Amount	
Regular CMP	25,245	\$ 13,099,222	33,626	\$ 16,964,038	(8,381)	\$ (3,864,816)	-24.92%	-22.78%	53,943	\$ 25,853,442	60,507	\$ 30,252,256	(6,564)
Light-Weight CMP	3,841	\$ 1,927,412	7,670	\$ 3,747,734	(3,829)	\$ (1,820,322)	-49.92%	-48.57%	11,642	\$ 5,436,476	13,491	\$ 6,561,375	(1,849)
Total CMP	29,086	\$ 15,026,634	41,296	\$ 20,711,771	(12,210)	\$ (5,685,137)	-29.57%	-27.45%	65,585	\$ 31,289,918	73,998	\$ 36,813,631	(8,423)
Offset Printing Paper	-	\$ -	3,142	\$ 2,115,782	(3,142)	\$ (2,115,782)	(100.00)%	(100.00)%	-	\$ -	10,415	\$ 7,184,221	(10,415)
Tissue Paper Products	397	\$ 398,388	1,120	\$ 1,251,416	(723)	\$ (853,028)	-64.55%	-68.17%	383	\$ 411,387	2,196	\$ 2,428,193	(1,833)
Total CMP, Offset Printing Paper and Tissue Paper Revenue	29,483	\$ 15,425,022	45,558	\$ 24,078,969	(16,075)	\$ (8,653,947)	-35.28%	-35.94%	65,968	\$ 31,701,305	86,609	\$ 46,426,045	(20,616)

Monthly sales revenue for the 24 months ended **March 31, 2022** June 30, 2022, are summarized below:

The Average Selling Prices (ASPs) for our main products in the three months ended **March 31, 2022** June 30, 2022 and 2021 are summarized as follows:

			Offset Printing Paper ASP	Regular CMP ASP	Light-Weight CMP ASP	Tissue Paper Products ASP
			\$ 673	\$ 504	\$ 489	\$ 1,117
			\$ -	\$ 519	\$ 502	\$ 1,003
			\$ (673)	\$ 15	\$ 13	\$ (114)
			- %	2.98%	2.66%	-10.21%
			Offset Printing Paper ASP	Regular CMP ASP	Light-Weight CMP ASP	Tissue Paper Products ASP
Three Months ended March 31, 2021			\$ 690	\$ 500	\$ 486	\$ 1,106
Three Months ended March 31, 2022			\$ -	\$ 479	\$ 467	\$ 1,074
Increase (Decrease) from comparable period in the previous year			\$ n/a	\$ (21)	\$ (19)	\$ (32)
Increase (Decrease) by percentage			n/a	-4.20%	-3.91%	-2.89%
Three Months ended June 30, 2021						
Three Months ended June 30, 2022						
Decrease from comparable period in the previous year						
Decrease by percentage						

The following chart shows the month-by-month ASPs for the 24-month period ended **March 31, 2022** **June 30, 2022**:

Corrugating Medium Paper

Revenue from CMP amounted to **\$15,026,634** (97.42% **\$31,289,918** (98.70% of the total offset printing paper, CMP and tissue paper products revenues) for the three months ended **March 31, 2022** **June 30, 2022**, representing a decrease of **\$5,685,137**, **\$5,523,713**, or **27.45%** **15.00%**, from **\$20,711,771** **\$36,813,631** for the comparable period in **2021**, as a result of production suspension of CMP in **2021**.

We sold **29,086** **65,585** tonnes of CMP in the three months ended **March 31, 2022** **June 30, 2022** as compared to **41,296** **73,998** tonnes for the same period in 2021, representing a **29.57%** an **11.37%** decrease in quantity sold.

ASP for regular CMP increased dropped from **\$504** / **\$500**/tonne for the three months ended **March 31, 2021** **June 30, 2021** to **\$519** / **\$479**/tonne for the three months ended **March 31, 2022** **June 30, 2022**, representing a **2.98%** increase, **4.20%** decrease. ASP in RMB for regular CMP for the **first** **second** quarter of 2021 and 2022 was **RMB3,282** **RMB3,224** and **RMB3,294**, **RMB3,156**, respectively, representing a **0.37%** increase, **2.11%** decrease. The quantity of regular CMP sold decreased by **8,381** **6,564** tonnes, from **33,626** **60,507** tonnes in the **first** **second** quarter of 2021 to **25,245** **53,943** tonnes in the **first** **second** quarter of 2022.

ASP for light-weight CMP increased decreased from **\$489** / **\$486**/tonne for the three months ended **March 31, 2021** **June 30, 2021** to **\$502** / **\$467**/tonne for the three months ended **March 31, 2022** **June 30, 2022**, representing a **2.66%** increase, **3.91%** decrease. ASP in RMB for light-weight CMP for the **first** **second** quarter of 2021 and 2022 was **RMB3,178** **RMB3,136** and **RMB3,186**, **RMB3,064**, respectively, representing a **0.25%** increase, **2.30%** decrease. The quantity of light-weight CMP sold decreased by **3,829** **1,849** tonnes, from **7,670** **13,491** tonnes in the **first** **second** quarter of 2021, to **3,841** **11,642** tonnes in the **first** **second** quarter of 2022.

Our PM6 production line, which produces regular CMP, has a designated capacity of 360,000 tonnes /year. The utilization rates for the **first** **second** quarter of 2022 and 2021 were **23.04%** **58.98%** and **38.42%** **68.20%**, respectively, representing a decrease of **15.38%** **9.22%**.

Quantities sold for regular CMP that was produced by the PM6 production line from April July 2020 to March June 2022 are as follows:

Offset printing paper

Revenue from offset printing paper was \$nil for the three months ended March 31, 2022, representing a decrease June 30, 2022 compared to the revenue of \$2,115,782, or 100.00%, from \$2,115,782 \$7,184,221 for the three months ended March 31, 2021 June 30, 2021. Production ceased Due to the Winter Olympic held in Beijing, China in 2022 and the first quarter requirement by the government to stem the sporadic spread of 2022. We sold 0 tonne COVID-19, our production of offset printing paper was suspended in the first quarter half of 2022, as compared to 3,142 tonnes in the comparable period of 2021, a decrease of 3,142 tonnes, or 100.00%. 2022.

Tissue Paper Products

Revenue from tissue paper products was \$398,388 (2.58% \$411,387 (1.30% of the total offset printing paper, CMP and tissue paper products revenues) for the three months ended March 31, 2022 June 30, 2022, representing a decrease of \$853,028, \$2,016,806, or 68.17% 83.06%, from \$1,251,416 \$2,428,193 for the three months ended March 31, 2021 June 30, 2021. We sold 397,383 tonnes of tissue paper in the first second quarter of 2022, as compared to 1,120,2,196 tonnes in the comparable period of 2021, representing a decrease of 723,1,813 tonnes, or 64.55% 82.56%.

ASP for tissue paper products decreased from \$1,117/ \$1,106/tonne for the three months ended March 31, 2021 June 30, 2021 to \$1,003/ \$1,074/tonne for the three months ended March 31, 2022 June 30, 2022, representing a 10.21% decrease. 2.89% decrease due to the appreciation of USD against RMB during the period. ASP in RMB for tissue paper products for the first second quarter of 2021 and 2022 was RMB7,267 RMB7,130 and RMB6,375 RMB7,153, respectively, representing a 12.27% decrease. 0.32% increase.

Revenue of Face Mask

On April 29, 2020, we launched production line of non-medical single-use face masks, following completion of raw materials preparation, trial run of the equipment and the sample products inspection. Revenue generated from selling face mask were \$56,596 \$87,579 and \$130,458 \$108,869 for the three months ended March 31, 2022 June 30, 2022 and 2021, respectively, representing a decrease of \$73,862 \$21,290, or 56.62% 19.56%. We sold 3,014 thousand pieces of face masks in the first second quarter of 2022, as compared to 3,836 2,635 thousand pieces in the comparable period of 2021, a decrease an increase of 822 379 thousand pieces, or 21.43% 14.38%.

Cost of Sales

Total cost of sales for CMP, offset printing paper and tissue paper products for the quarter ended March 31, 2022 June 30, 2022 was \$15,131,254, \$31,085,472, a decrease of \$7,141,241, \$12,322,383, or 32.06% 28.39%, from \$22,272,495 \$43,407,855 for the comparable period in 2021. This was mainly due to the decrease in sales quantity of regular CMP, offset printing paper and tissue paper products.

Cost of sales for CMP was \$14,169,089 \$29,859,737 for the quarter ended March 31, 2022 June 30, 2022, as compared to \$18,858,935 \$34,838,381 for the comparable period in 2021. The decrease in the cost of sales of \$4,689,846 \$4,978,644 for CMP was mainly due to the decrease in sales volume of regular CMP. CMP and the decrease in average cost of sales. Average cost of sales per tonne for CMP increased decreased by 6.56% 3.40%, from \$457 \$471 in the first second quarter of 2021 to \$487 \$455 in the first second quarter of 2022. The increase decrease in average cost of sales was mainly attributable to the increase lower average unit purchase costs (net of applicable value added tax) of recycled paper board in repair and maintenance costs, the second quarter of 2022 compared to the second quarter of 2021.

Cost of sales for offset printing paper was \$nil for the quarter ended March 31, 2022 June 30, 2022, as compared to \$1,705,938 \$5,909,029 for the comparable period in 2021.

Cost of sales for tissue paper products was \$962,165 \$1,225,735 for the quarter ended March 31, 2022 June 30, 2022, as compared to \$1,707,623 \$2,660,444 for the comparable period in 2021. The decrease in the cost of sales of \$745,458 \$1,434,709 for tissue paper products was mainly due to the decrease in sales volume of tissue paper products, and partially offset by the increase in average cost of sales. Average cost of sales per tonne of tissue paper products increased by 58.95% 164.24%, from \$1,525 \$1,211 in the three months ended March 31, 2021 June 30, 2021, to \$2,424 \$3,200 for the comparable period in 2022. This was mainly due to the increase in cost of tissue base paper.

Changes in cost of sales and cost per tonne by product for the quarters ended March 31, 2022 June 30, 2022 and 2021 are summarized below:

	Three Months Ended		Three Months Ended		Change in		Change in percentage		
	March 31, 2022		March 31, 2021		Cost of Sales	Cost per Tonne	Cost of Sales	Cost per Tonne	
	Cost of Sales	Cost per Tonne	Cost of Sales	Cost per Tonne					
Regular CMP	\$ 12,398,701	\$ 491	\$ 15,521,382	\$ 462	\$ (3,122,681)	\$ 29	-20.12%	6.28%	
Light-Weight CMP	\$ 1,770,388	\$ 461	\$ 3,337,553	\$ 435	\$ (1,567,165)	\$ 26	-46.96%	5.98%	
Total CMP	\$ 14,169,089	\$ 487	\$ 18,858,935	\$ 457	\$ (4,689,846)	\$ 30	-24.87%	6.56%	
Offset Printing Paper	\$ -	\$ -	\$ 1,705,938	\$ 543	\$ (1,705,938)	\$ (543)	-100.00%	-100.00%	
Tissue Paper Products	\$ 962,165	\$ 2,424	\$ 1,707,623	\$ 1,525	\$ (745,458)	\$ 899	-43.65%	58.95%	
Total CMP, Offset Printing Paper and Tissue Paper	\$ 15,131,254	\$ n/a	\$ 22,272,495	\$ n/a	\$ (7,141,241)	\$ n/a	-32.06%	n/a	
Three Months Ended									
June 30, 2022		June 30, 2021		Change in		Change in percentage		Cost per Tonne	
Cost of Sales		Cost per Tonne		Cost of Sales		Cost per Tonne		Cost of Sales	
Regular CMP	\$ 24,746,689	\$ 459	\$ 28,717,334	\$ 475	\$ (3,970,645)	\$ (16)	-13.83%	-3.37%	
Light-Weight CMP	\$ 5,113,048	\$ 439	\$ 6,121,047	\$ 454	\$ (1,007,999)	\$ (15)	-16.47%	-3.30%	
Total CMP	\$ 29,859,737	\$ 455	\$ 34,838,381	\$ 471	\$ (4,978,644)	\$ (16)	-14.29%	-3.40%	
Offset Printing Paper	\$ -	\$ -	\$ 5,909,029	\$ 567	\$ (5,909,029)	\$ (567)	-100.00%	-100.00%	
Tissue Paper Products	\$ 1,225,735	\$ 3,200	\$ 2,660,444	\$ 1,211	\$ (1,434,709)	\$ 1,989	-53.93%	164.24%	
Total CMP, Offset Printing Paper and Tissue Paper	\$ 31,085,472	\$ n/a	\$ 43,407,855	\$ n/a	\$ (12,322,383)	\$ n/a	-28.39%	n/a	

Our average unit purchase costs (net of applicable value added tax) of recycled paper board in the three months ended March 31, 2022 June 30, 2022 was RMB 1,858/1,776/tonne (approximately \$293/ \$273/tonne), as compared to RMB 1,878/2,112/tonne (approximately \$289/ \$327/tonne) for the three months ended March 31, 2021 June 30, 2021. These changes (in US dollars) represent a year-over-year increase decrease of 1.38% 16.51% for the recycled paper board. We use domestic recycled paper (sourced mainly from the Beijing-Tianjin metropolitan area) exclusively. Although we do not rely on imported recycled paper, the pricing of which tends to be more volatile than domestic recycled paper, our experience suggests that the pricing of domestic recycled paper bears some correlation to the pricing of imported recycled paper.

The pricing trends of our major raw materials for the 24-month period from April July 2020 to March June 2022 are shown below:

Electricity and gas are our two main energy sources. Electricity and gas accounted for approximately 3% 4% and 9.6% 15.4% of total sales in the first second quarter of 2022, respectively, compared to 4% and 9.7% 10.2% of total sales in the first second quarter of 2021. The monthly energy cost as a percentage of total monthly sales of our main paper products for the 24 months ended March 31, 2022 June 30, 2022 are summarized as follows:

Gross Profit

Gross profit for the three months ended March 31, 2022 June 30, 2022 was \$310,445 (2.01% \$634,037 (1.99% of the total revenue), representing a decrease of \$1,520,560, \$2,394,982, or 83.05% 79.07%, from the gross profit of \$1,831,005 (7.56% \$3,029,019 (6.51% of the total revenue) for the three months ended March 31, 2021 June 30, 2021, as a result of factors described above.

Offset Printing Paper, CMP and Tissue Paper Products

Gross profit for offset printing paper, CMP and tissue paper products for the three months ended March 31, 2022 June 30, 2022 was \$293,768, \$615,833, representing a decrease of \$1,512,706, \$2,402,358, or 83.74% 79.60%, from the gross profit of \$1,806,474 \$3,018,191 for the three months ended March 31, 2021 June 30, 2021. The decrease was mainly the result of the factors discussed above.

The overall gross profit margin for offset printing paper, CMP and tissue paper products decreased by 5.60% 4.56 percentage points, from 7.50% 6.50% for the three months ended March 31, 2021 June 30, 2021, to 1.90% 1.94% for the three months ended March 31, 2022 June 30, 2022.

Gross profit margin for regular CMP for the three months ended March 31, 2022 June 30, 2022 was 5.35% 4.28%, or 3.15% 0.79 percentage points lower, as compared to gross profit margin of 8.50% 5.07% for the three months ended March 31, 2021 June 30, 2021. Such decrease was mainly due to the increase average decrease of ASP of regular CMP, partially offset by the decrease in cost of sales recycled paper board in the second quarter of 2022.

Gross profit margin for light-weight CMP for the three months ended March 31, 2022 June 30, 2022 was 8.15% 5.95%, or 2.79% 0.76 percentage points lower, as compared to gross profit margin of 10.94% 6.71% for the three months ended March 31, 2021 June 30, 2021. The decrease was mainly due to the decrease in ASP of light-weight CMP, partially offset by the decrease in cost of recycled paper board in the second quarter of 2022.

Gross profit margin for tissue paper products for the three months ended March 31, 2022 June 30, 2022 was -141.51% -197.95%, or 105.05% 188.39 percentage points lower, as compared to gross profit margin of -36.46% -9.56% for the three months ended March 31, 2021 June 30, 2021. The increase decrease in gross loss was mainly due to the decrease in ASP of tissue paper products and the increase in cost of base paper paper in the second quarter of 2022.

Monthly gross profit margins on the sales of our CMP and offset printing paper for the 24-month period ended March 31, 2022 June 30, 2022 are as follows:

Face Masks

Gross profit for face mask masks for the three months ended March 31, 2022 June 30, 2022 and 2021 were \$16,677 \$18,204 and \$24,531 \$10,829, representing a gross margin of 29.47% 20.79% and 18.80% 9.95%, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended March 31, 2022 June 30, 2022 were \$3,300,881, an increase \$1,869,802, a decrease of \$745,563, \$727,809, or 29.18% 28.02% from \$2,555,318 \$2,597,611 for the three months ended March 31, 2021 June 30, 2021. The increase decrease was mainly due to the depreciation savings in manpower costs and appreciation of idle fixed assets during production suspension in first quarter of 2022, USD against RMB.

Loss (Loss) Income from Operations

Operating loss for the quarter ended March 31, 2022 June 30, 2022 was 2,956,433 \$1,237,605, a decrease of \$2,232,120 \$1,669,013, or 308.17% 386.88%, from \$724,313 income from operations of \$431,408 for the quarter ended March 31, 2021 June 30, 2021. The decrease in income from operations was primarily due to the decrease in gross profit, and increase partially offset by the decrease in selling, general and administrative expenses.

Other Income and Expenses

Interest expense for the three months ended **March 31, 2022** June 30, 2022 decreased by **\$8,088** **\$24,793**, from **\$278,901** **\$283,899** in the three months ended **March 31, 2021** June 30, 2021, to **\$270,813** **\$259,106**. The Company had short-term and long-term interest-bearing loans, related party loans and leasing obligations that aggregated **\$16,157,692** **\$15,530,449** as of **March 31, 2022** June 30, 2022, as compared to **\$16,406,559** **\$16,566,327** as of **March 31, 2021** June 30, 2021.

Gain on derivative liability

The Company analyzed the warrant for derivative accounting consideration under ASC 815, "Derivatives and Hedging, and hedging," and determined that the instrument should be classified as a liability. ASC 815 requires we assess the fair market value of derivative liability at the end of each reporting period and recognize any change in the fair market value as other income or expense item. The gain recognized on addition and change in fair value of derivative liability for the three months ended **March 31, 2022** June 30, 2022 and 2021 was **\$386,588**, **\$386,588** and **\$4,509,007**, respectively.

Net Loss

As a result and the factors discussed above, net loss was **\$2,488,214** **\$287,913** for the quarter ended **March 31, 2022** June 30, 2022, representing an increase of **\$1,850,642** **\$165,335**, or **22.65%** **36.48%**, from **\$4,338,856** **\$453,248** for the quarter ended **March 31, 2021** June 30, 2021.

Comparison of the six months ended June 30, 2022 and 2021

Revenue for the six months ended June 30, 2022 was \$47,270,502, representing a decrease of \$23,473,840, or 33.18%, from \$70,744,342 for the same period in the previous year. This was mainly due to the decrease in sales volume of corrugating medium paper ("CMP") and offset printing paper and tissue paper products.

Revenue of Offset Printing Paper, Corrugating Medium Paper and Tissue Paper Products

Revenue from sales of offset printing paper, CMP and tissue paper products for the six months ended June 30, 2022 was \$47,126,327, a decrease of \$23,378,688, or 33.16%, from \$70,505,015 for the six months ended June 30, 2021. This was mainly due to the decrease in sales volume of regular CMP, light-weight CMP, offset printing paper and tissue paper products, and the decrease in ASPs of CMP and tissue paper products. Total quantities of offset printing paper, CMP and tissue paper products sold during the six months ended June 30, 2022 amounted to 95,451 tonnes, a decrease of 36,717 tonnes, or 27.78%, compared to 132,168 tonnes sold during the six months ended June 30, 2021. Total quantities of CMP and offset printing paper sold decreased by 34,180 tonnes in the six months of 2022 as compared to the same period of 2021. We sold 780 tonnes of tissue paper products in the six months of 2022 as opposed to 3,317 tonnes in the same period of 2021. Production of CMP was suspended during January and February 2022 and offset printing paper suspended in the first quarter of 2022, due to Chinese New Year and restriction on production during Winter Olympics held in Beijing in 2022 as required by the government. The changes in revenue and quantity sold for the six months ended June 30, 2022 and 2021 are summarized as follows:

A summary of the above changes and further analyses of the changes in our sales revenue are as follows:

Sales Revenue	Six Months Ended		Six Months Ended		Change in		Percentage Change	
	June 30, 2022		June 30, 2021		Quantity	Amount	Quantity	Amount
	Quantity (Tonne)	Amount	Quantity (Tonne)	Amount	(Tonne)		Quantity	Amount
Regular CMP	79,188	\$ 38,952,663	94,133	\$ 47,216,294	(14,945)	\$ (8,263,631)	-15.88 %	-17.50 %
Light-Weight CMP	15,483	\$ 7,363,888	21,161	\$ 10,309,109	(5,678)	\$ (2,945,221)	-26.83 %	-28.57 %
Total CMP	94,671	\$ 46,316,551	115,294	\$ 57,525,403	(20,623)	\$ (11,208,852)	-17.89 %	-19.49 %
Offset Printing Paper	—	\$ —	13,557	\$ 9,300,003	(13,557)	\$ (9,300,003)	-100.00 %	-100.00 %
Tissue Paper Products	780	\$ 809,776	3,317	\$ 3,679,609	(2,537)	\$ (2,869,833)	-76.48 %	-77.99 %
Total CMP, Offset Printing Paper and Tissue Paper Revenue	95,451	\$ 47,126,327	132,168	\$ 70,505,015	(36,717)	\$ (23,378,688)	-27.78 %	-33.16 %

ASPs for our main products in the six-month period ended June 30, 2022 and 2021 are summarized as follows:

	Offset Printing Paper ASP	Regular CMP ASP	Light-Weight CMP ASP	Tissue Paper Products ASP
	\$ 686	\$ 502	\$ 487	\$ 1109
Six Months Ended June 30, 2021	\$ -	\$ 492	\$ 476	\$ 1038
Six Months Ended June 30, 2022	\$ n/a	\$ -10	\$ -11	\$ -71
Decrease from comparable period in the previous year		n/a	-1.99 %	-2.26 %
Decrease by percentage				-6.40 %

Revenue of Face Masks

Revenue generated from selling face masks were \$144,175 and \$239,327 for the six months ended June 30, 2022 and 2021. We sold 12,664 thousand pieces of face masks for the six months ended June 30, 2022, as compared to 6,470 thousand pieces in the comparable period of 2021, an increase of 6,194 thousand pieces, or 95.73%.

Cost of Sales

Total cost of sales for CMP, offset printing paper and tissue paper products in the six months ended June 30, 2022 was \$46,216,727, a decrease of \$19,463,623, or 29.63%, from \$65,680,350 for the six months ended June 30, 2021. This was mainly a result of the decrease in sales volume of CMP and offset printing paper. Cost of sales for CMP was \$44,028,827 for the six months ended June 30, 2022, as compared to \$53,697,316 in the same period of 2021. Cost of sales for tissue paper products was \$2,187,900 for the six months ended June 30, 2022, as compared to \$4,368,067 in the same period of 2021. Average cost of sales per tonne of tissue paper products increased by 112.98%, from \$1,317 for the six months ended June 30, 2021, to \$2,805 for the same period of 2022. The increase in average cost of sales of tissue paper products was mainly due to the increase in average cost of tissue base paper.

Changes in cost of sales and cost per tonne by product for the six months ended June 30, 2022 and 2021 are summarized below:

	Six Months Ended		Six Months Ended		Change in		Change in percentage	
	June 30, 2022		June 30, 2021		Cost of Sales	Cost per Tonne	Cost of Sales	Cost per Tonne
	Cost of Sales	Cost per Tonne	Cost of Sales	Cost per tonne				
Regular CMP	\$ 37,145,391	\$ 469	\$ 44,238,716	\$ 470	\$ (7,093,325)	\$ (1)	-16.03 %	-0.21 %
Light-Weight CMP	\$ 6,883,436	\$ 445	\$ 9,458,600	\$ 447	\$ (2,575,164)	\$ (2)	-27.23 %	-0.45 %
Total CMP	\$ 44,028,827	\$ 465	\$ 53,697,316	\$ 466	\$ (9,668,489)	\$ (1)	-18.01 %	-0.21 %
Offset Printing Paper	\$ 0	\$ -	\$ 7,614,967	\$ 562	\$ (7,614,967)	\$ (562)	-100.00 %	-100.00 %
Tissue Paper Products	\$ 2,187,900	\$ 2,805	\$ 4,368,067	\$ 1,317	\$ (2,180,167)	\$ 1,488	-49.91 %	112.98 %
Total CMP, Offset Printing Paper and Tissue Paper Revenue	\$ 46,216,727	\$ n/a	\$ 65,680,350	\$ n/a	\$ (19,463,623)	\$ n/a	-29.63 %	n/a %

Gross Profit

Gross profit for the six months ended June 30, 2022 was \$944,482 (2.00% of the total revenue), representing a decrease of \$3,915,542, or 80.57%, from the gross profit of \$4,860,024 (6.87% of the total revenue) for the six months ended June 30, 2021. The decrease was mainly due to (i) the decrease in quantities sold of CMP, offset printing paper and tissue paper products, and (ii) the increase in material costs of tissue paper products.

Offset Printing Paper, CMP and Tissue Paper Products

Gross profit for offset printing paper, CMP and tissue paper products for the six months ended June 30, 2022 was \$909,600, a decrease of \$3,915,065, or 81.15%, from the gross profit of \$4,824,665 for the six months ended June 30, 2021. The decrease was mainly the result of the factors discussed above.

The overall gross profit margin for offset printing paper, CMP and tissue paper products decreased by 4.91 percentage points, from 6.84% for the six months ended June 30, 2021, to 1.93% for the six months ended June 30, 2022.

Gross profit margin for regular CMP for the six months ended June 30, 2022 was 4.64%, or 1.67 percentage points lower, as compared to gross profit margin of 6.31% for the six months ended June 30, 2021.

Gross profit margin for light-weight CMP for the six months ended June 30, 2022 was 6.52%, or 1.73 percentage points lower, as compared to gross profit margin of 8.25% for the six months ended June 30, 2021.

Gross profit margin for tissue paper products was -170.19% for the six months ended June 30, 2022, a decrease of 151.48 percentage points, as compared to -18.71% for the six months ended June 30, 2021. The decrease was mainly due to the increase in cost of tissue base paper.

Face Masks

Gross profit for face masks for the six months ended June 30, 2022 was \$34,882, representing a gross margin of 24.19% compared with a gross profit of \$35,359, representing a gross margin of 14.77% for the six months ended June 30, 2021.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended June 30, 2022 were \$5,170,683, an increase of \$17,754, or 0.34% from \$5,152,929 for the six months ended June 30, 2021.

(Loss) Income from Operations

Operating loss for the six months ended June 30, 2022 was \$4,194,038, an increase of \$3,901,133, or 1331.88%, from loss from operations of \$292,905 for the six months ended June 30, 2021. The increase in loss from operations was primarily due to the decrease in gross profit.

Other Income and Expenses

Interest expense for the six months ended June 30, 2022 decreased by \$32,881, from \$562,800 for the six months ended June 30, 2021, to \$529,919. The Company had short-term and long-term interest-bearing loans and lease obligation that aggregated \$15,530,449 as of June 30, 2022, as compared to \$16,566,327 as of June 30, 2021.

Gain on derivative liability

The Company analyzed warrants for derivative accounting consideration under ASC 815, "Derivatives and Hedging, and hedging" and determined that the instrument should be classified as a liability. ASC 815 requires we assess the fair market value of derivative liability at the end of each reporting period and recognize any change in the fair market value as other income or expense item. The change in fair value of derivative liability for the six months ended June 30, 2022 and 2021 were \$1,346,633 and \$872,040, respectively.

Net Loss

As a result of the above, net loss was \$2,776,127 for the six months ended June 30, 2022, representing a decrease of \$2,015,977, or 42.07%, from net loss of \$4,792,104 for six months ended June 30, 2021.

Accounts Receivable

Net accounts receivable increased decreased by \$115,804, \$1,048,811, or 2.38% 21.54%, to \$4,984,738 \$3,820,123 as of March 31, 2022 June 30, 2022, as compared with \$4,868,934 as of December 31, 2021. We usually collect accounts receivable within 30 days of delivery and completion of sales.

Inventories

Inventories consist of raw materials (accounting for 61.98% 85.96% of total value of inventory as of March 31, 2022 June 30, 2022), semi-finished goods and finished goods. As of March 31, 2022 June 30, 2022, the recorded value of inventory decreased increased by 25.50% 13.43% to \$4,354,676 \$6,629,657 from \$5,844,895 as of December 31, 2021. As of March 31, 2022 June 30, 2022, the inventory of recycled paper board, which is the main raw material for the production of CMP, was \$2,373,036, \$5,289,833, approximately \$275,974, \$3,192,771, or 13.16% 152.25%, higher than the balance as of December 31, 2021. Due to the volatility of recycled paper board price, a minimum level of inventory was maintained at the end of 2021.

A summary of changes in major inventory items is as follows:

	March 31,				June 30, December 31,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
Raw Materials								
Recycled paper board	\$ 2,373,036	\$ 2,097,062	275,974	13.16%	\$ 5,289,833	\$ 2,097,062	3,192,771	152.25%
Recycled white scrap paper	11,859	11,808	51	0.43%	11,217	11,808	-591	-5.01%
Tissue base paper	81,412	38,745	42,667	110.12%	61,120	38,745	22,375	57.75%
Gas	35,213	32,753	2,460	7.51%	148,119	32,753	115,366	352.23%
Mask fabric and other raw materials	197,546	167,786	29,760	17.74%	188,327	167,786	20,541	12.24%
Total Raw Materials	2,699,066	2,348,154	350,912	14.94%	5,698,616	2,348,154	3,350,462	142.68%
Semi-finished Goods	398,665	96,087	302,578	314.90%	107,309	96,087	11,222	11.68%
Finished Goods	1,256,945	3,400,654	-2,143,709	-63.04%	823,732	3,400,654	-2,576,922	-75.78%
Total inventory, gross	4,354,676	5,844,895	-1,490,219	-25.50%	6,629,657	5,844,895	784,762	13.43%
Inventory reserve	-	-	-	-	-	-	-	-
Total inventory, net	\$ 4,354,676	\$ 5,844,895	(1,490,219)	-25.50%	\$ 6,629,657	\$ 5,844,895	784,762	13.43%

Renewal of operating lease

On August 7, 2013, the Company's Audit Committee and the Board of Directors approved the sale of the land use right of the Headquarters Compound (the "LUR"), the office building and essentially all industrial-use buildings in the Headquarters Compound (the "Industrial Buildings"), and three employee dormitory buildings located within the Headquarters Compound (the "Dormitories") to Hebei Fangsheng for cash prices of approximately \$2.77 million, \$1.15 million, and \$4.31 million respectively. In connection with the sale of the Industrial Buildings, Hebei Fangsheng agreed to lease the Industrial Buildings back to the Company for its original use for a term of up to three years, with an annual rental payment of approximately \$157,522 \$153,709 (RMB1,000,000). The lease agreement expired in August 2016. On August 6, 2016 and August 6, 2018, the Company entered into two supplementary agreements with Hebei Fangsheng, who agreed to extend the lease term to August 9, 2022 with the same rental payment as provided for in the original lease agreement.

Capital Expenditure Commitment as of March 31, 2022 June 30, 2022

On May 5, 2020, the Company announced it planned the commercial launch of a new tissue paper production line PM10 and the Company signed an agreement to purchase paper machine with paper machine supplier. The Company expected the new tissue paper production line to be launched after the completion of trial run.

As of March 31, 2022 June 30, 2022, we had approximately \$4.7 million \$4.5 million in capital expenditure commitments that were mainly related to the purchase of paper machine of PM10. The infrastructure work of PM10 has been completed and the associated ancillary facilities are working in progress. These commitments are expected to be financed by bank loans and cash flows generated from our business operations.

Financing with Sale-Leaseback

The Company entered into a sale-leaseback arrangement (the "Lease Financing Agreement") with TAC Leasing Co., Ltd. ("TLCL") on August 6, 2020, for a total financing proceeds in the amount of RMB 16 million (approximately US\$2.5 million). Under the sale-leaseback arrangement, Hebei Tengsheng sold the Leased Equipment to TLCL for 16 million (approximately US\$2.5 million). Concurrent with the sale of equipment, Hebei Tengsheng leases back the equipment sold to TLCL for a lease term of three years. At the end of the lease term, Hebei Tengsheng may pay a nominal purchase price of RMB 100 (approximately \$16) to TLCL and buy back the Leased Equipment. The Leased Equipment in amount of \$2,349,452 was recorded as right of use assets and the net present value of the minimum lease payments was recorded as lease liability and calculated with TLCL's implicit interest rate of 15.6% of 15.6% per annum and stated at \$567,099 at the inception of the lease on August 17, 2020.

Hebei Tengsheng made payments due according to the schedule. The balance of Leased Equipment net of amortization was \$2,254,357 and \$2,092,625 and \$2,286,459 as of March 31, 2022 June 30, 2022 and December 31, 2021, respectively. The lease liability was \$312,255 \$244,518 and \$362,394, and its current portion in the amount of \$228,051 \$224,219 and \$210,161 as of March 31, 2022 June 30, 2022 and December 31, 2021, respectively.

Amortization of the Leased Equipment was \$42,006 \$39,972 and \$40,997 for \$41,457 for the three months ended March 31, 2022 June 30, 2022 and 2021. Amortization of the Leased Equipment was \$81,978 and \$82,454 for the six months ended June 30, 2022 and 2021. Total interest expenses for the sale-leaseback arrangement was \$13,507 \$10,862 and \$20,418 \$18,932 for the three months ended March 31, 2022 June 30, 2022 and 2021. Total interest expenses for the sale-leaseback arrangement was \$24,369 and \$39,350 for the six months ended June 30, 2022 and 2021.

As a result of the sale and leaseback, a deferred gain in the amount of \$430,695 was recorded. The deferred gain is amortized over the lease term and as an offset to amortization of the Leased Equipment.

Cash and Cash Equivalents

Our cash, cash equivalents and restricted cash as of March 31, 2022 June 30, 2022 was \$15,358,443, \$14,344,077, an increase of \$4,156,831, \$3,142,465, from \$11,201,612 as of December 31, 2021. The increase of cash and cash equivalents for the three six months ended March 31, 2022 June 30, 2022 was attributable to a number of factors factors including:

i. Net cash provided by (used in) operating activities

Net cash provided by operating activities was \$4,411,418 \$3,949,782 for the three six months ended March 31, 2022 June 30, 2022. The balance represented an increase of cash of \$12,691,750, \$19,520,145, or 153.28% 125.37%, from -\$8,280,332 \$15,570,363 used in operating activities for the three six months ended March 31, 2021 June 30, 2021. Net loss for the three six months ended March 31, 2022 June 30, 2022 was \$2,488,214, \$2,776,127, representing a decrease of loss of \$1,850,642, \$2,015,977, or 42.65% 42.07%, from a net loss of \$4,338,856 \$4,792,104 for the three six months ended March 31, 2021 June 30, 2021. Changes in various asset and liability account balances throughout the three six months ended March 31, 2022 June 30, 2022 also contributed to the net change in cash from operating activities in the three six months ended March 31, 2022 June 30, 2022. Chief among such changes is the increase decrease of accounts receivable in the amount of \$98,921 \$845,450 during the three six months of 2022. There was also a decrease an increase of \$1,515,515 \$1,111,160 in the ending inventory balance as of March 31, 2022 (an increase June 30, 2022 (a decrease to net cash for the three six months ended March 31, 2022 June 30, 2022 cash flow purposes). In addition, the Company had non-cash expenses relating to depreciation and amortization in the amount of \$3,773,236, \$7,592,319. The Company also had a net decrease of \$3,056,189 \$1,963,348 in prepayment and other current assets (an increase to net cash) and a net decrease increase of \$469,485 \$503,774 in other payables and accrued liabilities and related parties (an increase to net cash), as well as a decrease in income tax payable of \$1,112,820 \$859,643 (a decrease to net cash) during the three six months ended March 31, 2022 June 30, 2022.

ii. Net cash used in investing activities

We incurred **\$7,175,972** **\$7,324,305** in net cash expenditures for investing activities during the **three** **six** months ended **March 31, 2022** **June 30, 2022**, as compared to **\$44,599** **\$171,541** for the same period of 2021. Payments were mainly for the last installments for the Tengsheng land acquisition.

iii. Net cash provided by financing activities

Net cash provided by financing activities was **\$6,893,314** **\$6,673,987** for the **three** **six** months ended **March 31, 2022** **June 30, 2022**, as compared to net cash provided by financing activities in the amount of **\$41,794,323** **\$41,671,591** for the **three** **six** months ended **March 31, 2021** **June 30, 2021**. A **\$6.9 million** **\$6.8 million** loan was repaid by a related party during the period.

Short-term bank loans

	March 31, 2022	December 31, 2021
Industrial and Commercial Bank of China ("ICBC") Loan	\$ 5,984,374	\$ 5,958,561
	June 30, 2022	December 31, 2021
Industrial and Commercial Bank of China ("ICBC") Loan	\$ 5,660,518	\$ 5,958,561
Total short-term bank loans	\$ 5,660,518	\$ 5,958,561

On November 25, 2021, the Company entered into a working capital loan agreement with the ICBC, with a balance of **\$5,984,374** **\$5,660,518** and **\$5,958,561** as of **March 31, 2022** **June 30, 2022** and December 31, 2021, respectively. The working capital loan was secured by the Land use right of Dongfang Paper as collateral for the benefit of the bank and guaranteed by Mr. Zhenyong Liu. The loan bears a fixed interest rate of 4.785% per annum. The loan will be due and repaid at various installments by November 17, 2022.

As of **March 31, 2022** **June 30, 2022**, there were guaranteed short-term borrowings of **\$5,984,374** **\$5,660,518** and unsecured bank loans of \$nil. As of December 31, 2021, there were guaranteed short-term borrowings of **\$5,958,561** and unsecured bank loans of \$nil.

The average short-term borrowing rates for the three months ended **March 31, 2022** **June 30, 2022** and 2021 were approximately 4.79%. The average short-term borrowing rates for the six months ended **June 30, 2022** and 2021 were approximately 4.79%.

Long-term loans from credit union

As of **March 31, 2022** **June 30, 2022** and December 31, 2021, loans payable to Rural Credit Union of Xushui District, amounted to **\$9,861,063** **\$9,327,413** and **\$9,818,530**, respectively.

On April 16, 2014, the Company entered into a loan agreement with the Rural Credit Union of Xushui District for a term of 5 years, which was originally due in various installments from June 21, 2014 to November 18, 2018. The loan is guaranteed by an independent third party. Interest payment is due quarterly and bears the rate of 0.64% per month. On November 6, 2018, the loan was renewed for additional 5 years and will be due and payable in various installments from December 21, 2018 to November 5, 2023. As of **March 31, 2022** June 30, 2022 and December 31, 2021, total outstanding loan balance was **\$1,354,715** \$1,281,402 and \$1,348,871, respectively. Out of the total outstanding loan balance, current portion amounted were **\$330,802** \$685,401 and \$329,376 as of **March 31, 2022** June 30, 2022 and December 31, 2021, respectively, which are presented as current liabilities in the consolidated balance sheet and the remaining balance of **\$1,023,913** \$596,001 and \$1,019,495 are presented as non-current liabilities in the consolidated balance sheet as of **March 31, 2022** June 30, 2022 and December 31, 2021, respectively.

On July 15, 2013, the Company entered into a loan agreement with the Rural Credit Union of Xushui District for a term of 5 years, which was originally due and payable in various installments from December 21, 2013 to July 26, 2018. On June 21, 2018, the loan was extended for additional 5 years and will be due and payable in various installments from December 21, 2018 to June 20, 2023. The loan is secured by certain of the Company's manufacturing equipment with net book value of **\$928,347** \$682,421 and \$1,130,333 as of **March 31, 2022** June 30, 2022 and December 31, 2021, respectively. Interest payment is due quarterly and bears a fixed rate of 0.64% per month. As of **March 31, 2022** June 30, 2022 and December 31, 2021, the total outstanding loan balance was **\$3,938,124** \$3,725,005 and \$3,921,139, respectively. Out of the total outstanding loan balance, current portion amounted were **\$1,969,062** \$3,725,005 and \$1,960,569 as of **March 31, 2022** June 30, 2022 and December 31, 2021 respectively, which are presented as current liabilities in the consolidated balance sheet and the remaining balance of **\$1,969,062** \$nil and \$1,960,570 are presented as non-current liabilities in the consolidated balance sheet as of **March 31, 2022** June 30, 2022 and December 31, 2021, respectively.

On April 17, 2019, the Company entered into a loan agreement with the Rural Credit Union of Xushui District for a term of 2 years, which was due and payable in various installments from August 21, 2019 to April 16, 2021. The loan was renewed on March 22, 2021 and December 24, 2021 and extended for additional 3 years in total, which will be due on April 16, 2024 according to the new schedule. The loan is secured by Hebei Tengsheng with its land use right as collateral for the benefit of the credit union. Interest payment is due quarterly and bears a fixed rate of 0.6% per month. As of **March 31, 2022** June 30, 2022 and December 31, 2021, the total outstanding loan balance was **\$2,520,399** \$2,384,003 and \$2,509,528, respectively. Out of the total outstanding loan balance, current portion amounted were \$nil and \$2,509,528 as of June 30, 2022 and December 31, 2021 respectively, which are presented as current liabilities in the consolidated balance sheet and the remaining balance of \$2,384,003 and \$nil are presented as non-current liabilities in the consolidated balance sheet as of **March 31, 2022** June 30, 2022 and December 31, 2021, respectively.

On December 12, 2019, the Company entered into a loan agreement with the Rural Credit Union of Xushui District for a term of 2 years, which is due and payable in various installments from June 21, 2020 to December 11, 2021. The loan was renewed on March 22, 2021 and December 24, 2021 and extended for additional 3 years in total, which will be due on December 11, 2024 according to the new schedule. The loan is secured by Hebei Tengsheng with its land use right as collateral for the benefit of the credit union. Interest payment is due monthly and bears a fixed rate of 7.56% per annum. As of **March 31, 2022** June 30, 2022 and December 31, 2021, the total outstanding loan balance was **\$2,047,825** \$1,937,003 and \$2,038,992, respectively. Out of the total outstanding loan balance, current portion amounted were \$nil and \$2,038,992 as of June 30, 2022 and December 31, 2021 respectively, which are presented as current liabilities in the consolidated balance sheet and the remaining balance of \$1,937,003 and \$nil are presented as non-current liabilities in the consolidated balance sheet as of **March 31, 2022** June 30, 2022 and December 31, 2021, respectively.

Total interest expenses for the short-term bank loans and long-term loans for the three months ended **March 31, 2022** June 30, 2022 and 2021 were **\$257,306** \$248,244 and **\$258,483** \$264,967, respectively. Total interest expenses for the short-term bank loans and long-term loans for the six months ended June 30, 2022 and 2021 were \$505,550 and **\$523,450**, respectively.

Shareholder Loans

Mr. Zhenyong Liu, the Company's CEO has loaned money to Dongfang Paper for working capital purposes over a period of time. On January 1, 2013, Dongfang Paper and Mr. Zhenyong Liu renewed the three-year term loan previously entered on January 1, 2010, and extended the maturity date further to December 31, 2015. On December 31, 2015, the Company paid off the loan of \$2,249,279, together with interest of \$391,374 for the period from 2013 to 2015. Approximately \$403,791 \$381,938 and \$402,047 of interest were outstanding to Mr. Zhenyong Liu, which were recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet as of **March 31, 2022** June 30, 2022 and December 31, 2021, respectively.

On December 10, 2014, Mr. Zhenyong Liu provided a loan to the Company, amounted to \$8,742,278 to Dongfang Paper for working capital purpose with an interest rate of 4.35% per annum, which was based on the primary lending rate of People's Bank of China. The unsecured loan was provided on December 10, 2014, and would be originally due on December 10, 2017. During the year of 2016, the Company repaid \$6,012,416 to Mr. Zhenyong Liu, together with interest of \$288,596. In February 2018, the company paid off the remaining balance, together with interest of \$20,400. As of **March 31, 2022** June 30, 2022 and December 31, 2021, approximately \$47,257 \$44,700 and \$47,054 of interest, respectively were outstanding to Mr. Zhenyong Liu, which was recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet.

On March 1, 2015, the Company entered an agreement with Mr. Zhenyong Liu which allows Dongfang Paper to borrow from the CEO an amount up to \$17,201,342 (RMB120,000,000) for working capital purposes. The advances or funding under the agreement are due three years from the date each amount is funded. The loan is unsecured and carries an annual interest rate set on the basis of the primary lending rate of the People's Bank of China at the time of the borrowing. On July 13, 2015, an unsecured amount of \$4,324,636 was drawn from the facility. On October 14, 2016 an unsecured amount of \$2,883,091 was drawn from the facility. In February 2018, the company repaid \$1,507,432 to Mr. Zhenyong Liu. The loan would be originally due on July 12, 2018. Mr. Zhenyong Liu agreed to extend the loan for additional 3 years and the remaining balance will be due on July 12, 2021. On November 23, 2018, the company repaid \$3,768,579 to Mr. Zhenyong Liu, together with interest of \$158,651. In December 2019, the company paid off the remaining balance, together with interest of 94,636. As of **March 31, 2022** June 30, 2022 and December 31, 2021, the outstanding interest was \$216,498 \$204,782 and \$215,565, respectively, which was recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet.

As of **March 31, 2022** June 30, 2022 and December 31, 2021, total amount of loans due to Mr. Zhenyong Liu were \$nil. The interest expense incurred for such related party loans were \$nil for the three and six months ended **March 31, 2022** June 30, 2022 and 2021. The accrued interest owing to Mr. Zhenyong Liu was approximately \$667,546 \$631,420 and \$664,666, as of **March 31, 2022** June 30, 2022 and December 31, 2021, respectively, which was recorded in other payables and accrued liabilities.

On December 8, 2021, the Company entered an agreement with Mr. Zhenyong Liu, which allows Mr. Zhenyong Liu to borrow from the Company an amount of \$6,915,176 (RMB44,089,085). The loan ~~will be due on June 29, 2022. The loan~~ is unsecured and carries a fixed interest rate of 3% per annum. The loan was repaid by Mr. Zhenyong Liu in February 2022.

As of **March 31, 2022** June 30, 2022 and December 31, 2021, amount due to shareholder ~~was \$727,433~~ was \$727,433, which represents funds from shareholders to pay for various expenses incurred in the U.S. The amount is due on demand with interest free.

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us 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. Management makes these estimates using the best information available at the time the estimates are made. However, actual results could differ materially from those estimates. The most critical accounting policies are listed below:

Revenue Recognition Policy

The Company recognizes revenue when goods are delivered and a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist, and collectability is reasonably assured. Goods are considered delivered when the customer's truck picks up goods at our finished goods inventory warehouse.

Long-Lived Assets

The Company evaluates the recoverability of long-lived assets and the related estimated remaining useful lives when events or circumstances lead management to believe that the carrying value of an asset may not be recoverable and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. In such circumstances, those assets are written down to estimated fair value. Our judgments regarding the existence of impairment indicators are based on market conditions, assumptions for operational performance of our businesses, and possible government policy toward operating efficiency of the Chinese paper manufacturing industry. For the three months ended **March 31, 2022** **June 30, 2022** and 2021, no events or circumstances occurred for which an evaluation of the recoverability of long-lived assets was required. We are currently not aware of any events or circumstances that may indicate any need to record such impairment in the future.

Foreign Currency Translation

The functional currency of Dongfang Paper and Baoding Shengde is the Chinese Yuan Renminbi ("RMB"). Under ASC Topic 830-30, all assets and liabilities are translated into United States dollars using the current exchange rate at the end of each fiscal period. The current exchange rates used by the Company as of **March 31, 2022** **June 30, 2022** and December 31, 2021 to translate the Chinese RMB to the U.S. Dollars are **6.3482**:**6.7114**:1 and **6.3757**:1, respectively. Revenues and expenses are translated using the prevailing average exchange rates at **6.3483**:**6.5058**:1 and **6.5045**:**6.4682**:1 for the three months ended **March 31, 2022** **June 30, 2022** and 2021, respectively. Translation adjustments are included in other comprehensive income (loss).

Off-Balance Sheet Arrangements

We were the guarantor for Baoding Huanrun Trading Co., for its long-term bank loans in an amount of **\$4,883,274** **\$4,619,006** (RMB31,000,000), which matures at various times in 2023. Baoding Huanrun Trading Co. is one of our major suppliers of raw materials. This helps us to maintain a good relationship with the supplier and negotiate for better terms in payment for materials. If Huanrun Trading Co. were to become insolvent, the Company could be materially adversely affected. Except as aforesaid, we have no material off-balance sheet transactions.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 replaced the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 requires use of a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. In October 2019, the FASB issued ASU No. 2019-10, "Financial Instruments-Credit Losses (Topic 326): Effective Dates", to finalize the effective date delays for private companies, not-for-profits, and smaller reporting companies applying the CECL standards. The ASU is effective for reporting periods beginning after December 15, 2022 and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2016-13 on our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Foreign Exchange Risk

While our reporting currency is the US dollar, almost all of our consolidated revenues and consolidated costs and expenses are denominated in RMB. All of our assets are denominated in RMB except for some cash and cash equivalents and accounts receivables. As a result, we are exposed to foreign exchange risks as our revenues and results of operations may be affected by fluctuations in the exchange rate between US dollar and RMB. If the RMB depreciates against the US dollar, the value of our RMB revenues, earnings and assets as expressed in our US dollar financial statements will decline. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

Inflation

Although we are generally able to pass along minor incremental cost inflation to our customers, inflation such as increases in the costs of our products and overhead costs may adversely affect our operating results. We do not believe that inflation in China has had a material impact on our financial position or results of operations to date, however, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling and distribution, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase in line with the increased costs.

Item 4. Controls and Procedures.

As required by Rule 13a-15 of the Securities Exchange Act, as amended (the "Exchange Act"), we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures, which were designed to provide reasonable assurance of achieving their objectives. This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of March 31, 2022June 30, 2022, our disclosure controls and procedures were effective at the reasonable assurance level to ensure (1) that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and (2) information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes with respect to our internal control over financial reporting (as such term is defined in Rules 13a-15(f) under the Exchange Act) that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting in the quarterly period ended March 31, 2022June 30, 2022.

PART II - OTHER INFORMATION

PART II - OTHER INFORMATION **Item 1. Legal Proceedings.**

None.

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a) Exhibits

31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Schema Document
101.CAL	Inline XBRL Calculation Linkbase Document
101.DEF	Inline XBRL Definition Linkbase Document
101.LAB	Inline XBRL Label Linkbase Document
101.PRE	Inline Inline XBRL Presentation Linkbase Document
104	Cover Page Interactive Data File The cover page iXBRL tags are embedded within the inline XBRL document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IT TECH PACKAGING, INC.

Date: May 10, 2022 August 9, 2022

/s/ Zhenyong Liu

Name: Zhenyong Liu
Title: Chief Executive Officer

(Principal Executive Officer)

Date: May 10, 2022 August 9, 2022

/s/ Jing Hao

Name: Jing Hao
Title: Chief Financial Officer

(Principal Financial Officer)

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Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Zhenyong Liu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of IT Tech Packaging, Inc.;
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 quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant'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 controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - 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 registrant'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 registrant's internal controls over financial reporting.

Dated: August 9, 2022

Dated: May 10, 2022

By: /s/ Zhenyong Liu

Zhenyong Liu
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jing Hao, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of IT Tech Packaging, Inc.;
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 quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant'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 controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - 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 registrant'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 registrant's internal controls over financial reporting.

Dated: August 9, 2022
Dated: May 10, 2022

By: /s/ Jing Hao
Jing Hao
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of IT Tech Packaging, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2022June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Zhenyong Liu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. section 1350 and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Dated: August 9, 2022

Dated: May 10, 2022

By: /s/ Zhenyong Liu
Zhenyong Liu
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of IT Tech Packaging, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2022June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jing Hao, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. section 1350 and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Dated: August 9, 2022

Dated: May 10, 2022

By: /s/ Jing Hao
Jing Hao
Chief Financial Officer
(Principal Financial Officer)

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