UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2024

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-38767

DATASEA INC.
(Exact name of registrant as specified in its charter)

Nevada	**45-2019013**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

As of November 11, 2024, 7,087,002 shares of common stock, $0.001 par value per share, were outstanding.

DATASEA INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DATASEA INC.
CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2024 (UNAUDITED)	JUNE 30, 2024
ASSETS		
CURRENT ASSETS		
Cash	$ 937,606	$ 181,262
Accounts receivable	18,445	718,546
Inventory, net	208,062	153,583
Value-added tax prepayment	128,430	107,545
Subscription receivables - related parties	3,980,382	-
Prepaid expenses and other current assets	1,908,999	1,486,956
Total current assets	7,181,924	2,647,892
NONCURRENT ASSETS		
Property and equipment, net	43,680	48,466
Intangible assets, net	518,306	546,001
Right-of-use assets, net	212,740	49,345
Total noncurrent assets	774,726	643,812
TOTAL ASSETS	$ 7,956,650	$ 3,291,704
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 284,140	$ 1,075,641
Unearned revenue	1,312,317	49,239
Accrued expenses and other payables	691,792	596,714
Due to related parties	231,551	654,560
Operating lease liabilities	90,794	53,530
Bank loan payable	1,148,786	1,170,298
Total current liabilities	3,759,380	3,599,982
NONCURRENT LIABILITIES		
Operating lease liabilities	132,541	-
Total noncurrent liabilities	132,541	-
TOTAL LIABILITIES	3,891,921	3,599,982
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, $ 0.001 par value, 25,000,000 shares authorized, 7,087,002 and 3,589,620 shares issued and outstanding as of September 30, 2024 and June 30, 2024 , respectively	7,087	3,589
Additional paid-in capital	45,268,415	38,957,780
Accumulated comprehensive income	229,054	242,208
Accumulated deficit	(41,402,311)	(39,440,322)
TOTAL COMPANY STOCKHOLDERS' EQUITY (DEFICIT)	4,102,245	(236,745)
Noncontrolling interest	(37,516)	(71,533)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	4,064,729	(308,278)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 7,956,650	$ 3,291,704

The accompanying notes are an integral part of these consolidated financial statements.

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2024	2023
Revenues	$ 21,081,094	$ 6,880,743
Cost of revenues	20,884,113	6,806,008
Gross profit	196,981	74,735
Operating expenses		
Selling	996,049	84,447
General and administrative	1,128,403	693,060
Research and development	103,079	155,004
Total operating expenses	2,227,531	932,511
Loss from operations	(2,030,550)	(857,776)
Non-operating income (expenses)		
Other income (expenses), net	55,826	(7,864)
Interest income	4,055	106
Total non-operating income (expenses), net	59,881	(7,758)
Loss before income tax	(1,970,669)	(865,534)
Income tax	-	-
Loss before noncontrolling interest from continuing operations	(1,970,669)	(865,534)
Income before noncontrolling interest from discontinued operations	-	833,546
Less: loss attributable to noncontrolling interest from continuing operations	(8,680)	(9,932)
Less: loss attributable to noncontrolling interest from discontinued operations	-	-
Net loss attribute to noncontrolling interest	(8,680)	(9,932)
Net loss to the Company from continuing operations	(1,961,989)	(855,602)
Net income to the Company from discontinued operations	-	833,546
Net loss to the Company	(1,961,989)	(22,056)
Other comprehensive item		
Foreign currency translation loss attributable to the Company	(13,154)	(161,216)
Foreign currency translation gain (loss) attributable to noncontrolling interest	41,306	(8)
Comprehensive loss attributable to the Company	$ (1,975,143)	$ (183,272)
Comprehensive income (loss) attributable to noncontrolling interest	$ 32,626	$ (9,940)
Basic and diluted net loss per share	$ (0.49)	$ (0.01)
Weighted average shares used for computing basic and diluted loss per share *	4,041,052	1,963,066

* retroactively reflect 1-for-15 reverse stock split effective on January 19, 2024

The accompanying notes are an integral part of these consolidated financial statements.

DATASEA INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023
(UNAUDITED)

	Common Stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Total	Noncontrolling interest
	Shares	Amount					
Balance at July 1, 2024	3,589,620	$ 3,590	$38,957,780	$ (39,440,322)	$ 242,208	$ (236,745)	$ (71,533)
Net loss	-	-	-	(1,961,989)	-	(1,961,989)	(8,680)
Noncontrolling interest disposal at closure of the entity	-	-	-	-	-	-	1,391

Issuance of common stock for equity financing	692,308	692	1,958,059	-	-	1,958,751	-
Issuance of common stock for equity financing - related parties	1,932,224	1,932	3,978,449	-	-	3,980,381	-
Shares issued for stock compensation expense	75,000	75	374,925	-	-	375,000	-
Shares issued for purchase of intangible assets from the Company's major shareholders	797,850	798	(798)	-	-	-	-
Foreign currency translation gain (loss)	-	-	-	-	(13,154)	(13,154)	41,306
Balance at September 30, 2024	7,087,002	$ 7,087	$45,268,415	$ (41,402,311)	$ 229,054	$ 4,102,245	$ (37,516)
Balance at July 1, 2023	1,889,315	$ 1,889	$24,148,868	$ (28,063,258)	$ 393,252	$ (3,519,249)	$ (60,848)
Net loss	-	-	-	(22,056)	-	(22,056)	(9,932)
Issuance of common stock for equity financing	685,940	686	8,060,600	-	-	8,061,286	-
Shares issued for stock compensation expense	-	-	20,100	-	-	20,100	-
Foreign currency translation loss	-	-	-	-	(161,216)	(161,216)	(8)
Balance at September 30, 2023	2,575,255	$ 2,575	$32,229,568	$ (28,085,314)	$ 232,036	$ 4,378,865	$ (70,788)

The accompanying notes are an integral part of these consolidated financial statements.

DATASEA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2024	**2023**
Cash flows from operating activities:		
Loss including noncontrolling interest	$ (1,970,669)	$ (31,988)
Adjustments to reconcile loss including noncontrolling interest to net cash used in operating activities:		
Gain on disposal of subsidiary	-	(833,546)
Bad debt reversal	(7,026)	-
Depreciation and amortization	85,635	137,873
Loss on disposal of fixed assets	2,815	-
Operating lease expense	38,932	74,181
Stock compensation expense	375,000	20,100
Changes in assets and liabilities:		
Accounts receivable	701,384	(21,436)
Inventory	(51,064)	137
Value-added tax prepayment	(18,760)	(14,121)
Prepaid expenses and other current assets	(384,177)	(5,692,660)
Accounts payable	(794,504)	(179,875)
Unearned revenue	1,242,820	(45,332)
Accrued expenses and other payables	79,650	(56,515)
Payment on operating lease liabilities	(32,691)	(101,231)
Net cash used in operating activities	(732,655)	(6,744,413)
Cash flows from investing activities:		
Acquisition of property and equipment	(2,752)	(330)
Acquisition of intangible assets	(44,768)	-
Cash disposed due to disposal of subsidiary	-	(35)
Net cash used in investing activities	(47,520)	(365)
Cash flows from financing activities:		
Repayment to related parties	(426,944)	(675,828)
Proceeds from loan payables	-	879,422
Repayment of loan payables	(40,815)	(184,425)
Net proceeds from issuance of common stock	1,958,751	8,061,286
Net cash provided by financing activities	1,490,992	8,080,455
Effect of exchange rate changes on cash	45,527	(136,657)
Net increase in cash	756,344	1,199,020
Cash, beginning of period	181,262	19,728

Cash, end of period	$ 937,606	$ 1,218,748
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 9,214	$ 5,551
Cash paid for income tax	$ -	$ -
Supplemental disclosures of non-cash financing activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	$ 197,347	$ -

The accompanying notes are an integral part of these consolidated financial statements.

DATASEA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2024 (UNAUDITED) AND JUNE 30, 2024

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Datasea Inc. (the “Company,” “Datasea,” or “we,” “us,” “our”) was incorporated in the State of Nevada on September 26, 2014 under the name Rose Rock Inc. and changed its name to Datasea Inc. on May 27, 2015. On May 26, 2015, the Company’s founder, Xingzhong Sun, sold 6,666,667 shares of common stock, par value $ 0.001 per share, of the Company (the “Common Stock”) to Zhixin Liu (“Ms. Liu”), an owner of Shuhai Skill (HK) as defined below. On October 27, 2016, Mr. Sun sold his remaining 1,666,667 shares of Common Stock of the Company to Ms. Liu. As a holding company with no material operations, the Company conducts a majority of its business activities through organizations established in the People’s Republic of China (“PRC”, primarily by variable interest entity (the “VIE”). The Company does not have any equity ownership of its VIE, instead it controls and receives economic benefits of the VIE’s business operations through certain contractual arrangements.

On October 29, 2015, the Company entered into a share exchange agreement (the “Exchange Agreement”) with the shareholders (the “Shareholders”) of Shuhai Information Skill (HK) Limited (“Shuhai Skill (HK)”), a limited liability company (“LLC”) incorporated on May 15, 2015 under the laws of the Hong Kong Special Administrative Region of the People’s Republic of China (the “PRC”). Pursuant to the terms of the Exchange Agreement, the Shareholders, who own 100 % of Shuhai Skill (HK), transferred all of the issued and outstanding ordinary shares of Shuhai Skill (HK) to the Company for 6,666,667 shares of Common Stock, causing Shuhai Skill (HK) and its wholly owned subsidiaries, Tianjin Information Sea Information Technology Co., Ltd. (“Tianjin Information” or “WOFE”), an LLC incorporated under the laws of the PRC, and Harbin Information Sea Information Technology Co., Ltd., an LLC incorporated under the laws of the PRC, to become wholly-owned subsidiaries of the Company; and Shuhai Information Technology Co., Ltd., also an LLC incorporated under the laws of the PRC (“Shuhai Beijing”), to become a VIE of the Company through a series of contractual agreements between Shuhai Beijing and Tianjin Information. The transaction was accounted for as a reverse merger, with Shuhai Skill (HK) and its subsidiaries being the accounting survivor. Accordingly, the historical financial statements presented are those of Shuhai Skill (HK) and its consolidated subsidiaries and VIE.

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

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

On October 16, 2019, Shuhai Beijing incorporated a wholly owned subsidiary, Heilongjiang Xunrui Technology Co. Ltd. (“Xunrui”), which develops and markets the Company’s smart security system products.

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

In January 2020, the Company acquired ownership in three entities for no consideration from the Company’s management, which set up such entities on the Company’s behalf (described below).

On January 3, 2020, Shuhai Beijing entered into two equity transfer agreements (the “Transfer Agreements”) with the President, and a Director of the Company. Pursuant to the Transfer Agreements, the Director and the President, each agreed, for no consideration, to (i) transfer his 51 % and 49 % respective ownership interests, in Guozhong Times (Beijing) Technology Ltd. (“Guozhong Times”) to Shuhai Beijing; and (ii) transfer his 51 % and 49 % respective ownership interests, in Guohao Century (Beijing) Technology Ltd. (“Guohao Century”) to Shuhai Beijing. Guozhong Times and Guohao Century were established to develop technology for electronic products, intelligence equipment and accessories, and provide software and information system consulting, installation and maintenance services.

On January 7, 2020, Shuhai Beijing entered into another equity transfer agreement with the President, the Director described above and an unrelated individual. Pursuant to this equity transfer agreement, the Director, the President and the unrelated individual each agreed to transfer his 51 %, 16 %, 33 % ownership interests, in Guozhong Haoze (Beijing) Technology Ltd. (“Guozhong Haoze”) to Shuhai Beijing for no consideration. Guozhong Haoze was formed to develop and market the smart security system products.

On August 17, 2020, Beijing Shuhai formed a new wholly-owned subsidiary Shuhai Jingwei (Shenzhen) Information Technology Co., Ltd (“Jingwei”), to expand the security oriented systems developing, consulting and marketing business overseas.

On November 16, 2020, Guohao Century formed Hangzhou Zhangqi Business Management Limited Partnership (“Zhangqi”) with ownership of 99 % as an ordinary partner. In November 2023, the Company dissolved Zhangqi as a result of disposal of Zhuangxun in July 2023, Zhangqi had no operations but only serves as a holding company of Zhagnxun. In November 2023, the Company dissolved Zhangqi.

On November 19, 2020, Guohao Century formed a 51 % owned subsidiary Hangzhou Shuhai Zhangxun Information Technology Co., Ltd ("Zhangxun") for research and development of 5G Multimodal communication technology. Zhangqi owns 19 % of Zhangxun; accordingly, Guohao Century ultimately owns 69.81 % of Zhangxun. On December 20, 2022, Guohao Century acquired a 30 % ownership interests of Zhangxun from Zhengmao Zhang at the price of $ 0.15 (RMB 1.00). After the transaction, Guohao Century owns 81 % of Zhangxun, and Zhangqi owns 19 % of Zhangxun; On February 15, 2023, Guohao Century acquired a 9 % ownership interests of Zhangxun from the Zhangqi at the price of $ 130,434 (RMB 900,000). After the transaction, Guohao Century owns 90 % of Zhangxun, and Zhangqi owns 10 % of Zhangxun; as a result, Guohao Century ultimately owns 99.9 % of Zhangxun. On July 20, 2023, the Company sold Zhangxun to a third party for RMB 2 ($ 0.28).

On February 16, 2022, Shuhai Jingwei formed Shenzhen Acoustic Effect Management Limited Partnership ("Shenzhen Acoustic MP") with 99 % ownership interest, the remaining 1 % ownership interest is held by a third party.

On February 16, 2022, Shuhai Jingwei formed Shuhai (Shenzhen) Acoustic Effect Technology Co., Ltd ("Shuhai Shenzhen Acoustic Effect"), a PRC Company, in which Shuhai Jingwei holds 60 % ownership interest, 10 % ownership interest is held by Shenzhen Acoustic MP, and remaining 30 % ownership interest is held by a third party. On October 18, 2022, Shuhai Jingwei acquired 30 % ownership interest of Shuhai Acoustic Effect, a PRC Company from the third party at the price of approximately $ 0.15 (RMB 1.00). After the transaction, Shuhai Jingwei owns 90 % of Shuhai Shenzhen Effect, and Shenzhen Acoustic MP still owns 10 % of Shuhai Shenzhen Effect; accordingly, Shuhai Jingwei ultimately owns 100 % of Shuhai Acoustic Effect. The book value of 30 % interest acquired from the third party was $(26,993) due to its accumulated deficit.

On March 4, 2022, Shuhai Beijing formed Beijing Yirui Business Management Development Center ("Yirui") with 99 % ownership interest as an ordinary partner, the remaining 1 % ownership interest is held by Zhixin Liu.

On March 4, 2022, Shuhai Beijing formed Beijing Yiying Business Management Development Center ("Yiying") with 99 % ownership interest as an ordinary partner, the remaining 1 % ownership interest is held by Zhixin Liu.

On July 31, 2023, Datasea established a wholly owned subsidiary Datasea Acoustic, LLC ("Datasea Acoustic") in the state of Delaware for expanding the products to the market in North America.

On October 24, 2023, Guozhong Times formed Shuhai Yiyun (Shenzhen) digital technology Co, Ltd ("Yiyun") with 66 % ownership interest, the remaining 34 % ownership interest is held by a third party. As of the report date, Yiyun did not have any operations.

On January 10, 2024, the Company's Board of Directors approved a reverse stock split of its authorized and issued and outstanding shares of common stock, par value $ 0.001 per share (the "Common Stock"), at a ratio of 1-for-15, which become legal effective on January 19, 2024. After the reverse stock split, every 15 issued and outstanding shares of the Company's Common Stock was converted automatically into one share of the Company's Common Stock without any change in the par value per share. The total number of shares of Common Stock authorized for issuance was then reduced by a corresponding proportion from 375,000,000 shares to 25,000,000 shares of Common Stock. All share amounts have been retroactively restated to reflect the reverse stock split for all periods presented.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

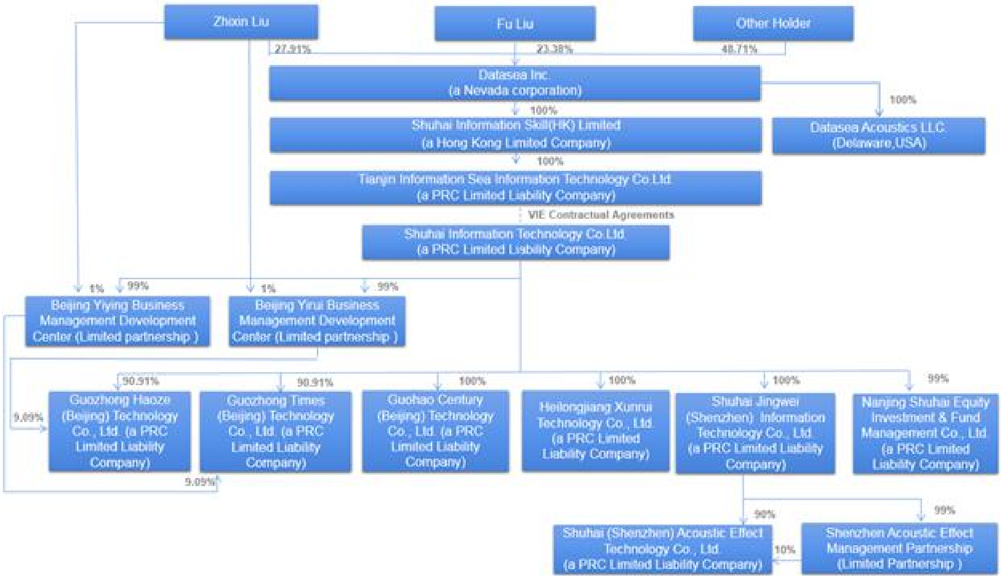
GOING CONCERN

The accompanying consolidated financial statements ("CFS") were prepared assuming the Company will continue as a going concern, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business. For the three months ended September 30, 2024 and 2023, the Company had a net loss of approximately $ 1.96 million and $ 22,056 , respectively. The Company had an accumulated deficit of approximately $ 41.40 million as of September 30, 2024, and negative cash flow from operating activities of approximately $ 0.73 million and $ 6.74 million for the three months ended September 30, 2024 and 2023, respectively. The historical operating results including recurring losses from operations raise substantial doubt about the Company's ability to continue as a going concern.

If deemed necessary, management could seek to raise additional funds by way of admitting strategic investors, or private or public offerings, or by seeking to obtain loans from banks or others, to support the Company's research and development ("R&D"), procurement, marketing and daily operation. While management of the Company believes in the viability of its strategy to generate sufficient revenues and its ability to raise additional funds on reasonable terms and conditions, there can be no assurances to that effect. The ability of the Company to continue as a going concern depends upon the Company's ability to further implement its business plan and generate sufficient revenue and its ability to raise additional funds by way of a public or private offering. There is no assurance that the Company will be able to obtain funds on commercially acceptable terms, if at all. There is also no assurance that the amount of funds the Company might raise will enable the Company to complete its initiatives or attain profitable operations. If the Company is unable to raise additional funding to meet its working capital needs in the future, it may be forced to delay, reduce or cease its operations.

BASIS OF PRESENTATION AND CONSOLIDATION

The CFS were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and applicable rules and regulations of the SEC regarding CFS. The accompanying CFS include the financial statements of the Company and its 100 % owned subsidiaries Shuhai Information Skill (HK) Limited ("Shuhai Skill (HK)"), and Tianjin Information sea Information Technology Co., Ltd. ("Tianjin Information"), and its VIE, Shuhai Beijing, and Shuhai Beijing's 100 % owned subsidiaries – Heilongjiang Xunrui Technology Co. Ltd. ("Xunrui"), Guozhong Times (Beijing) Technology Ltd. ("Guozhong Times"), Guohao Century (Beijing) Technology Ltd. ("Guohao Century"), Guozhong Haoze, and Shuhai Jingwei (Shenzhen) Information Technology Co., Ltd. ("Jingwei"), and Shuhai Beijing's 99 % owned subsidiary Nanjing Shuhai Equity Investment Fund Management Co. Ltd. ("Shuhai Nanjing"). During the year ended June 30, 2022, the Company incorporated two new subsidiaries Shuhai (Shenzhen) Acoustic Effect Technology Co., Ltd ("Shuhai Acoustic") and Shenzhen Acoustic Effect Management Partnership ("Shenzhen Acoustic MP"). All significant inter-company transactions and balances were eliminated in consolidation. The chart below depicts the corporate structure of the Company as of September 30, 2024.



VARIABLE INTEREST ENTITY

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

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

Through the VIE agreements, Tianjin Information, an indirect subsidiary of Datasea is deemed the primary beneficiary of Shuhai Beijing and its subsidiaries. Accordingly, the results of Shuhai Beijing and its subsidiaries were included in the accompanying CFS. Shuhai Beijing has no assets that are collateral for or restricted solely to settle their obligations. The creditors of Shuhai Beijing do not have recourse to the Company's general credit.

VIE Agreements

Operation and Intellectual Property Service Agreement – The Operation and Intellectual Property Service Agreement allows Tianjin Information Sea Information Technology Co., Ltd ("WFOE") to manage and operate Shuhai Beijing and collect an operating fee equal to Shuhai Beijing's pre-tax income, per month. If Shuhai Beijing suffers a loss and as a result does not have pre-tax income, such loss shall be carried forward to the following month to offset the operating fee to be paid to WFOE if there is pre-tax income of Shuhai Beijing the following month. Furthermore, if Shuhai Beijing cannot pay off its debts, WFOE shall pay off the debt on Shuhai Beijing's behalf. If Shuhai Beijing's net assets fall lower than its registered capital balance, WFOE shall provide capital for Shuhai Beijing to make up for the deficit.

Under the terms of the Operation and Intellectual Property Service Agreement, Shuhai Beijing entrusts Tianjin Information to manage its operations, manage and control its assets and financial matters, and provide intellectual property services, purchasing management services, marketing management services and inventory management services to Shuhai Beijing. Shuhai Beijing and its stockholders shall not make any decisions nor direct the activities of Shuhai Beijing without Tianjin Information's consent.

Stockholders' Voting Rights Entrustment Agreement – Tianjin Information has entered into a stockholders' voting rights entrustment agreement (the "Entrustment Agreement") under which Zhixin Liu and Fu Liu (collectively the "Shuhai Beijing Stockholders") have vested their voting power in Shuhai Beijing to Tianjin Information or its designee(s). The Entrustment Agreement does not have an expiration date, but the parties can agree in writing to terminate the Entrustment Agreement. Zhixin Liu, is the Chairman of the Board, President, CEO of DataSea and Corporate Secretary, and Fu Liu, a Director of the DataSea (Fu Liu is the father of Zhixin Liu).

Equity Option Agreement – the Shuhai Beijing Stockholders and Tianjin Information entered into an equity option agreement (the "Option Agreement"), pursuant to which the Shuhai Beijing Stockholders have granted Tianjin Information or its designee(s) the irrevocable right and option to acquire all or a portion of Shuhai Beijing Stockholders' equity interests in Shuhai Beijing for an option price of RMB 0.001 for each capital contribution of RMB 1.00 . Pursuant to the terms of the Option Agreement, Tianjin Information and the Shuhai Beijing Stockholders have agreed to certain restrictive covenants to safeguard the rights of Tianjin Information under the Option Agreement. Tianjin Information agreed to pay RMB 1.00 annually to Shuhai Beijing Stockholders to maintain the option rights. Tianjin Information may terminate the Option Agreement upon prior written notice. The Option Agreement is valid for a period of 10 years from the effective date and renewable at Tianjin Information's option.

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

As of this report date, there were no dividends paid from the VIE to the U.S. parent company or the shareholders of the Company. There has been no change in facts and circumstances to consolidate the VIE.

The following financial statement amounts and balances of the VIE were included in the accompanying CFS as of September 30, 2024 and June 30, 2024, and for the three months ended September 30, 2024 and 2023, respectively.

	September 30, 2024	June 30, 2024
Cash	$ 199,085	$ 93,154
Accounts receivable	18,445	718,546
Inventory	207,662	119,053
Other current assets	1,582,860	295,305
Total current assets	2,008,052	1,226,058
Property and equipment, net	31,537	30,934
Intangible asset, net	459,040	441,485
Right-of-use asset, net	197,021	11,045
Total non-current assets	687,598	483,464
Total assets	$ 2,695,650	$ 1,709,522
Accounts payable	$ 79,937	$ 765,998
Accrued liabilities and other payables	806,736	713,827
Lease liability	73,753	11,981
Loans payable	1,148,786	1,170,298
Other current liabilities	1,329,090	150,835
Total current liabilities	3,438,302	2,812,939
Lease liability - noncurrent	132,541	-
Total non-current liabilities	132,541	-
Total liabilities	$ 3,570,843	$ 2,812,939

	For the Three Months Ended September 30, 2024	For the Three Months Ended September 30, 2023
Revenues	$ 21,081,094	$ 6,880,743
Gross profit	$ 238,134	$ 74,735
Net loss	$ 452,170	$ (419,473)*

* exclude the gain from disposal of Zhangxun of $ 0.83 million.

USE OF ESTIMATES

The preparation of CFS in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The significant areas requiring the use of management estimates include, but are not limited to, the estimated useful life and residual value of property, plant and equipment, provision for staff benefits, recognition and measurement of deferred income taxes and the valuation allowance for deferred tax assets. Although these estimates are based on management's knowledge of current events and actions management may undertake in the future, actual results may ultimately differ from those estimates and such differences may be material to the CFS.

CONTINGENCIES

Certain conditions may exist as of the date the CFS are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company's CFS.

If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. As of September 30, 2024 and June 30, 2024, the Company has no such contingencies.

CASH

Cash includes cash on hand and demand deposits that are highly liquid in nature and have original maturities when purchased of three months or less.

ACCOUNTS RECEIVABLE

The Company's policy is to maintain an allowance for potential credit losses on accounts receivable. The Company adopted Accounting Standards

Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit losses on financial instruments later codified as Accounting Standard codification ("ASC") 326 ("ASC 326"), on July 1, 2023. The guidance introduces a revised approach to the recognition and measurement of credit losses, emphasizing an updated model based on expected losses rather than incurred losses. There was no significant impact on the date of adoption of ASC 326.

Under ASC 326, accounts receivable are recorded at the invoiced amount, net of allowance for expected credit losses. The Company's primary allowance for credit losses is the allowance for doubtful accounts. The allowance for doubtful accounts reduces the accounts receivable balance to the estimated net realizable value. The Company regularly reviews the adequacy of the allowance for credit losses based on a combination of factors. In establishing any required allowance, management considers historical losses adjusted for current market conditions, the Company's customers' financial condition, the amount of any receivables in dispute, the current receivables aging, current payment terms and expectations of forward-looking loss estimates.

All provisions for the allowance for doubtful accounts are included as a component of general and administrative expenses on the accompanying consolidated statements of operations and comprehensive loss. Accounts receivable deemed uncollectible are charged against the allowance for credit losses when identified. Subsequent recoveries of amounts previously written off are credited to earnings in the period recovered. As of September 30, 2024 and June 30, 2024, the Company had a $ 0 bad debt allowance for accounts receivable.

INVENTORY

Inventory is comprised principally of intelligent temperature measurement face recognition terminal and identity information recognition products, and is valued at the lower of cost or net realizable value. The value of inventory is determined using the first-in, first-out method. The Company periodically estimates an inventory allowance for estimated unmarketable inventories when necessary. Inventory amounts are reported net of such allowances. There were $ 54,564 and $ 53,650 allowances for slow-moving and obsolete inventory (mainly for Smart-Student Identification cards) as of September 30, 2024 and June 30, 2024, respectively.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation. Major repairs and improvements that significantly extend original useful lives or improve productivity are capitalized and depreciated over the period benefited. Maintenance and repairs are expensed as incurred. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method over estimated useful lives as follows:

Furniture and fixtures	3 - 5 years
Office equipment	3 - 5 years
Vehicles	5 years
Leasehold improvement	3 years

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

INTANGIBLE ASSETS

Intangible assets with finite lives are amortized using the straight-line method over their estimated period of benefit. Evaluation of the recoverability of intangible assets is made to take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of the Company's intangible assets are subject to amortization. No impairment of intangible assets has been identified as of the balance sheet date.

Intangible assets include licenses, certificates, patents and other technology and are amortized over their useful life of three years .

FAIR VALUE ("FV") OF FINANCIAL INSTRUMENTS

The carrying value of the Company's short-term financial instruments, such as cash, accounts receivable, prepaid expenses, accounts payable, unearned revenue, accrued expenses and other payables approximates their FV due to their short maturities. FASB ASC Topic 825, "Financial Instruments," requires disclosure of the FV of financial instruments held by the Company. The carrying amounts reported in the balance sheets for current liabilities qualify as financial instruments and are a reasonable estimate of their FV because of the short period of time between the origination of such instruments and their expected realization and the current market rate of interest.

FAIR VALUE MEASUREMENTS AND DISCLOSURES

FASB ASC Topic 820, "Fair Value Measurements," defines FV, and establishes a three-level valuation hierarchy for disclosures that enhances disclosure requirements for FV measures. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include other than those in level 1 quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the FV measurement.

As of September 30, 2024 and June 30, 2024, the Company did not identify any assets or liabilities required to be presented on the balance sheet at FV on a recurring basis.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with FASB ASC 360-10, "Accounting for the Impairment or Disposal of Long-Lived Assets", long-lived assets such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, or it is reasonably possible that these assets could become impaired as a result of technological or other changes. The determination of recoverability of assets to be held and used is made by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset.

If such assets are considered impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its FV. FV generally is determined using the asset's expected future undiscounted cash flows or market value, if readily determinable. Assets to be disposed of are reported at the lower of the carrying amount or FV less cost to sell. For the three months ended September 30, 2024 and 2023, there was no impairment loss recognized on long-lived assets.

UNEARNED REVENUE

The Company records payments received in advance from its customers or sales agents for the Company's products as unearned revenue, mainly consisting of deposits or prepayment for 5G products from the Company's sales agencies. These orders normally are delivered based upon contract terms and customer demand, and the Company will recognize it as revenue when the products are delivered to the end customers.

LEASES

The Company determines if an arrangement is a lease at inception under FASB ASC Topic 842. Right of Use Assets ("ROU") and lease liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. As most of its leases do not provide an implicit rate, it uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company's incremental borrowing rate is a hypothetical rate based on its understanding of what its credit rating would be. The ROU assets include adjustments for prepayments and accrued lease payments. The ROU asset also includes any lease payments made prior to commencement and is recorded net of any lease incentives received. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise such options.

ROU assets are reviewed for impairment when indicators of impairment are present. ROU assets from operating and finance leases are subject to the impairment guidance in ASC 360, Property, Plant, and Equipment, as ROU assets are long-lived nonfinancial assets.

ROU assets are tested for impairment individually or as part of an asset group if the cash flows related to the ROU asset are not independent from the cash flows of other assets and liabilities. An asset group is the unit of accounting for long-lived assets to be held and used, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The Company recognized no impairment of ROU assets as of September 30, 2024 and June 30, 2024.

REVENUE RECOGNITION

The Company follows Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (ASC 606).

The core principle underlying FASB ASC 606 is that the Company will recognize revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which the Company expects to be entitled in such exchange. This will require the Company to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. The Company's revenue streams are identified when possession of goods and services is transferred to a customer.

FASB ASC Topic 606 requires the use of a five-step model to recognize revenue from customer contracts. The five-step model requires the Company (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocate the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) the Company satisfies each performance obligation.

The Company derives its revenues from product sales and 5G messaging service contracts with its customers, with revenues recognized upon delivery of services and products. Persuasive evidence of an arrangement is demonstrated via product sale contracts and professional service contracts, with performance obligations identified. The transaction price, such as product selling price, and the service price to the customer with corresponding performance obligations are fixed upon acceptance of the agreement. The Company recognizes revenue when it satisfies each performance obligation, the customer receives the products and passes the inspection and when professional service is rendered to the customer, collectability of payment is probable. These revenues are recognized at a point in time after each performance obligations is satisfied. Revenue is recognized net of returns and value-added tax charged to customers.

The following table shows the Company's revenue by revenue sources:

	For the Three Months Ended September 30, 2024	For the Three Months Ended September 30, 2023
5G AI Multimodal communication	**$ 21,075,584**	**$ 6,880,463**
5G AI Multimodal communication	21,075,584	6,880,463
Cloud platform construction cooperation project	-	-
Acoustic Intelligence Business	**2,464**	**280**
Ultrasonic Sound Air Disinfection Equipment	2,464	280
Other	-	-
Smart City business	**3,046**	**-**
Smart community	3,046	-
Smart community broadcasting system	-	-
Smart agriculture	-	-
Other	**-**	**-**
Total revenue	**$ 21,081,094**	**$ 6,880,743**

* include the revenue from discontinued entities

SEGMENT INFORMATION

FASB ASC Topic 280, "Segment Reporting," requires use of the "management approach" model for segment reporting. The management approach model is based on the method a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. Management determined the Company's current operations constitutes a single reportable segment in accordance with ASC 280. The Company's only business and industry segment is high technology and advanced information systems ("TAIS"). TAIS includes smart city solutions that meet the security needs of residential communities, schools and commercial enterprises, and 5G messaging services including 5G SMS, 5G MMCP and 5G multi-media video messaging.

All of the Company's customers are in the PRC and all revenues for the three months ended September 30, 2024 and 2023 were generated from the PRC. All identifiable assets of the Company are located in the PRC. Accordingly, no geographical segments are presented.

INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes in accordance with FASB ASC Topic 740, "Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current period and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets also include the prior years' net operating losses carried forward. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

The Company follows FASB ASC Topic 740, which prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC Topic 740 also provides guidance on recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures.

Under the provisions of FASB ASC Topic 740, when tax returns are filed, it is likely some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest associated with unrecognized tax benefits is classified as interest expense and penalties are classified in selling, general and administrative expenses in the statement of income. As of September 30, 2024 and June 30, 2024, the Company had no unrecognized tax positions and no charges during the three months ended September 30, 2024 and 2023, and accordingly, the Company did not recognize any interest or penalties related to unrecognized tax benefits. The Company files a U.S. and PRC income tax return. With few exceptions, the Company's U.S. income tax returns filed for the years ending on June 30, 2018 and thereafter are subject to examination by the relevant taxing authorities; the Company uses calendar year-end for its PRC income tax return filing, PRC income tax returns filed for the years ending on December 31, 2018 and thereafter are subject to examination by the relevant taxing authorities.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are expensed in the period when incurred. These costs primarily consist of cost of materials used, salaries paid for the Company's development department, and fees paid to third parties.

NONCONTROLLING INTERESTS

The Company follows FASB ASC Topic 810, "Consolidation," governing the accounting for and reporting of noncontrolling interests ("NCIs") in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCI (previously referred to as minority interests) be treated as a separate component of equity, not as a liability, that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions rather than as step acquisitions or dilution gains or losses, and that losses of a partially-owned consolidated subsidiary be allocated to non-controlling interests even when such allocation might result in a deficit balance.

The net Income (loss) attributed to NCI was separately designated in the accompanying statements of operations and comprehensive income (loss). Losses attributable to NCI in a subsidiary may exceed a non-controlling interest's interests in the subsidiary's equity. The excess attributable to NCIs is attributed to those interests. NCIs shall continue to be attributed their share of losses even if that attribution results in a deficit NCI balance. On December 20, 2022, Guohao Century acquired a 30 % ownership noncontrolling interests of Zhangxun from Zhengmao Zhang at the price of $ 0.15 (RMB 1.00). The Company recognized a paid in capital deficit of $ 982,014 from this purchase due to continued loss of Zhangxun. Subsequent to this purchase, the Company ultimately holds a 99.9 % ownership of Zhangxun. On July 20, 2023, the Company sold Zhangxun to a third party for RMB 2 ($ 0.28).

Zhangqi was 1 % owned by noncontrolling interest, in November 2023, the Company dissolved Zhangqi. As of December 31, 2023, Shuhai Nanjing was 1 % owned by noncontrolling interest, Shenzhen Acoustic MP was 1 % owned by noncontrolling interest, Shuhai Shenzhen Acoustic was 0.1 % owned by noncontrolling interest, Guozhong Times was 0.091 % owned by noncontrolling interest, and Guozhong Haoze was 0.091 % owned by noncontrolling interest. During the three months ended September 30, 2024 and 2023, the Company had loss of $ 8,680 and $ 9,932 attributable to the noncontrolling interest from continuing operations, respectively.

CONCENTRATION OF CREDIT RISK

The Company maintains cash in accounts with state-owned banks within the PRC. Cash in state-owned banks less than RMB 500,000 ($ 76,000) is covered by insurance. Should any institution holding the Company's cash become insolvent, or if the Company is unable to withdraw funds for any reason, the Company could lose the cash on deposit with that institution. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in these bank accounts. Cash denominated in RMB with a U.S. dollar equivalent of $ 645,916 and $ 100,788 as of September 30, 2024 and June 30, 2024, respectively, was held in accounts at financial institutions located in the PRC, which is not freely convertible into foreign currencies.

Cash held in accounts at U.S. financial institutions is insured by the Federal Deposit Insurance Corporation or other programs subject to certain limitations up to $ 250,000 per depositor. As of September 30, 2024 and June 30, 2024, cash of $ 290,077 and $ 79,225 was maintained at U.S. financial institutions. Cash was maintained at financial institutions in Hong Kong, and was insured by the Hong Kong Deposit Protection Board up to a limit of HK $ 500,000 ($ 64,000). As of September 30, 2024 and June 30, 2024, the cash balance of $ 1,613 and $ 1,249 was maintained at financial institutions in Hong Kong. The Company, its subsidiaries and VIE have not experienced any losses in such accounts and do not believe the cash is exposed to any significant risk.

FOREIGN CURRENCY TRANSLATION AND COMPREHENSIVE INCOME (LOSS)

The accounts of the Company's Chinese entities are maintained in RMB and the accounts of the U.S. parent company are maintained in United States dollar ("USD"). The financial statements of the Chinese entities were translated into USD in accordance with FASB ASC Topic 830 "Foreign Currency Matters." All assets and liabilities were translated at the exchange rate on the balance sheet date; stockholders' equity is translated at historical rates and the statements of operations and cash flows are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income (loss) in accordance with FASB ASC Topic 220, "Comprehensive Income." Gains and losses resulting from foreign currency transactions are reflected in the statements of operations.

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

The exchange rates used to translate amounts in RMB to USD for the purposes of preparing the CFS were as follows:

	September 30, 2024	September 30, 2023	June 30, 2024
Period-end date USD: RMB exchange rate	7.0074	7.1798	7.1268
Average USD for the reporting period: RMB exchange rate	7.1169	7.1729	7.1326

BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (EPS)

Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed similarly, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted EPS is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to have been exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

STATEMENT OF CASH FLOWS

In accordance with FASB ASC Topic 230, "Statement of Cash Flows," cash flows from the Company's operations are calculated based upon the local currencies. As a result, amounts shown on the statement of cash flows may not necessarily agree with changes in the corresponding asset and liability on the balance sheet.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2023, the FASB issued ASU 2023-07, the amendments in the ASU are intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss. In addition, the amendments enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment, and contain other disclosure requirements. The purpose of the amendments is to enable "investors to better understand an entity's overall performance" and assess "potential future cash flows." The amendments in ASU 2023-07 are effective for all public entities for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company's management does not believe the adoption of ASU 2023-09 will have a material impact on its financial statements and disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures (ASU 2023-09), which requires disclosure of incremental income tax information within the rate reconciliation and expanded disclosures of income taxes paid, among other disclosure requirements. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company's management does not believe the adoption of ASU 2023-09 will have a material impact on its financial statements and disclosures.

The Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the Company's consolidated financial position, statements of comprehensive income and cash flows.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	September 30, 2024	June 30, 2024
Furniture and fixtures	$ 69,024	$ 77,281

Vehicle	499	491
Leasehold improvement	223,693	219,945
Office equipment	246,333	241,543
Subtotal	539,549	539,260
Less: accumulated depreciation	495,869	490,794
Total	$ 43,680	$ 48,466

Depreciation for the three months ended September 30, 2024 and 2023 was $ 5,463 and $ 10,662 , respectively.

NOTE 4 – INTANGIBLE ASSETS

Intangible assets are summarized as follows:

	September 30, 2024	June 30, 2024
Software registration or using right	$ 1,866,254	$ 1,809,548
Patent	14,980	14,729
Software and technology development costs	11,970	11,770
Value-added telecommunications business license	15,853	15,587
Subtotal	1,909,057	1,851,634
Less: Accumulated amortization	1,390,751	1,305,633
Total	$ 518,306	$ 546,001

Software registration or using right represented the purchase cost of customized software with its source code from third party software developer.

Software and technology development cost represented development costs incurred internally after the technological feasibility was established and a working model was produced and was recorded as intangible asset.

Amortization for the three months ended September 30, 2024 and 2023 was $ 80,172 and $ 127,211 , respectively. The amortization expense for the next five years as of September 30, 2024 will be $ 261,379 , $ 174,020 , $ 82,907 , $ 0 and $ 0 .

NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	September 30, 2024	June 30, 2024
Security deposit	$ 84,556	$ 64,041
Prepaid expenses	474,229	1,225,612
Prepaid 5G Cost	1,239,516	-
Other receivables – Heqin	468,077	467,250
Advance to third party individuals, no interest, payable upon demand	106,330	154,345
Others	4,368	42,958
Total	2,377,076	1,954,206
Less: allowance for other receivables – Heqin	468,077	467,250
Total	$ 1,908,999	$ 1,486,956

As of September 30, 2024, prepaid expenses mainly consisted of prepayment of 5G messaging service fee recharge of $ 134,628 , prepaid professional fee of $ 229,471 , prepayment for inventory purchase of $ 67,385 , prepaid rent and property management fee of $ 3,568 and other prepayments of $ 39,177 .

As of June 30, 2024, prepaid expenses mainly consisted of prepaid marketing expense of $ 946,954 , prepaid telecommunication service fee (mainly including SMS and MMS services) of $ 198,559 , prepaid rent and property management fees of $ 3,508 and other prepayments of $ 76,591 .

Prepaid marketing expense

On September 16, 2023, Tianjin Information entered an Operation Cooperation Agreement with an unrelated company, Beijing Jincheng Haoda Construction Engineering Co., Ltd (“Jincheng Haoda”), for marketing and promoting the sale of 5G messaging and acoustic intelligence series products in oversea market. The cooperation term is from September 16, 2023 through September 15, 2026. Jincheng Haoda is committed to complete RMB 200 million sales performance in the first year, RMB 300 million sales performance in the second year, and RMB 400 million sales performance in the third year. The Company will pay 25 % of the sales amount to Jincheng Haoda as marketing fee upon receipt of the sales amount, on monthly basis. As of September 30, 2024, the Company made a prepayment of RMB 14,997,000 ($ 2,088,777) to Jincheng Haoda for facilitating the quick capture of the market for the Company’s products, the prepayment was the 30 % of marketing service fee of first year’s target sales to be completed by Jincheng Haoda. During the service term, the Company will perform the annual assessment, if Jincheng Haoda was not able to achieve the target annual sales, and did not reach 30 % of target annual sales amount, Jincheng Haoda shall return the Company’s prepayment after deducting the marketing service fee of the actual sales. In addition, under the circumstance Jincheng Haoda did not complete the 30 % of the annual target sales, Jincheng Haoda will indemnify the Company 20 % of marketing service fee of unachieved sales amount from the 30 % of the annual target sales. For the three months ended September 30, 2024, the Company recorded an amortization of prepaid expense of $ 0.53 million in the selling expense; this prepaid marketing expense was fully amortized as of September 30, 2024.

On September 18, 2023, Tianjin Information entered an Operation Cooperation Agreement with an unrelated company, Beijing Jiajia Shengshi Trading Co., Ltd (‘Jiajia Shengshi”), for marketing and promoting the sale of 5G messaging and acoustic intelligence series products in domestic market. The cooperation term is from September 18, 2023 through September 17, 2026. Jiajia Shengshi is committed to complete RMB 200 million sales performance in the first year, RMB 300 million sales performance in the second year, and RMB 500 million sales performance in the third year. The Company will pay 20 % of the sales amount to Jiajia Shengshi as marketing fee upon receipt of the sales amount, on a monthly basis. As of September 30, 2024, the Company made a prepayment of RMB 11,998,000 ($ 1,671,077) to Jiajia Shengshi for facilitating the quick capture of the market for the Company’s products, the prepayment was the 30 % of marketing service fee of first year’s target sales to be completed by Jiajia Shengshi. During the service term, the Company will perform the annual assessment, if Jiajia Shengshi was not able to achieve the target annual sales, and did not reach 30

% of target annual sales amount, Jiajia Shengshi shall return the Company's prepayment after deducting the marketing service fee of the actual sales. In addition, under the circumstance Jiajia Shengshi did not complete the 30 % of the annual target sales, Jiajia Shengshi will indemnify the Company 20 % of marketing service fee of unachieved sales amount from the 30 % of the annual target sales. For the three months ended September 30, 2024, the Company recorded an amortization of prepaid expense of $ 0.42 million in the selling expense; this prepaid marketing expense was fully amortized as of September 30, 2024.

Other receivables – Heqin

On February 20, 2020, Guozhong Times entered an Operation Cooperation Agreement with an unrelated company, Heqin (Beijing) Technology Co, Ltd. ("Heqin"), for marketing and promoting the sale of Face Recognition Payment Processing equipment and related technical support, and other products of the Company including Epidemic Prevention and Control Systems. Heqin has a sales team which used to work with Fortune 500 companies and specializes in business marketing and sales channel establishment and expansion, especially in education industry and public area.

The cooperation term is from February 20, 2020 through March 1, 2023; however, Heqin is the exclusive distributor of the Company's face Recognition Payment Processing products for the period to July 30, 2020. During March and April 2020, Guozhong Times provided operating funds to Heqin, together with a credit line provided by Guozhong Times to Heqin from May 2020 through August 2020, for a total borrowing of RMB 10 million ($ 1.41 million) for Heqin's operating needs. As of March 31, 2023, Guozhong Times had an outstanding receivable of RMB 3.53 million ($ 513,701) from Heqin and was recorded as other receivables. The Company would not charge Heqin any interest, except for two loans of RMB 200,000 ($ 28,250) each, due on June 30, 2020 and August 15, 2020, respectively, for which the Company charges 15 % interest if Heqin did not repay by the due date.

No profits will be allocated and distributed before full repayment of the borrowing. After Heqin pays in full the borrowing, Guozhong Times and Heqin will distribute profits of sale of Face Recognition Payment Processing equipment and related technical support at 30 % and 70 % of the net income, respectively. The profit allocation for the sale of other products of the Company are to be negotiated. Heqin will receive certain stock reward when it reaches the preset sales target under the performance compensation mechanism.

In November 2022, Hangzhou Yuetianyun Data Technology Company Ltd ("Yuetianyun") agreed and acknowledged a Debt Transfer Agreement, wherein Heqin transferred its debt from Yuetianyun to Guozhong Times in the amount of RMB 1,543,400 ($ 213,596). As of September 30, 2024 and June 30, 2024, Heqin made $ 57,083 (through Yuetianyun) and $ 48,438 repayment to the Company, and the Company made a bad debt allowance of $ 468,077 and $ 467,250 as of September 30, 2024 and June 30, 2024, respectively.

NOTE 6 – LONG TERM INVESTMENT

In November 2021, Shuhai Nanjing invested RMB 200,000 ($ 29,800) for 6.21 % stock ownership of a high-tech company Nanjing Dutao Intelligence Technology Co., Ltd in Nanjing City specializing on internet security equipment. As of September 30, 2024, the Company recorded a full impairment for this investment.

In August 2022, Shuhai Nanjing invested RMB 200,000 ($ 28,717) for 1 % stock ownership of a high-tech company Nanjing Jinjizhihui Technology Co. Ltd in Nanjing City specializing in software and system development. As of September 30, 2024, the Company recorded a full impairment for this investment.

The Company accounts for investments with less than 20 % of the voting shares and does not have the ability to exercise significant influence over operating and financial policies of the investee using the cost method. The Company elects the measurements alternative and records investment in equity securities at the historical cost in its consolidated financial statements and subsequently records any dividends received from the net accumulated earrings of the investee as income. Dividends received in excess of earnings are considered a return of investment and are recorded as reduction in the cost of the investments.

NOTE 7 – UNEARNED REVENNUE

The balance of unearned revenue was $ 1,312,317 and $ 49,239 as of September 30, 2024 and June 30, 2024, respectively.

The following presents the roll-forward schedule of unearned revenue for the three months ended September 30, 2024 and 2023:

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023
Balance, beginning of period	$ 49,239	$ 609,175
Received during the period	23,586,381	7,184,708
Transferred to revenue	(22,343,561)	(7,127,006)
Effect of foreign currency translation	20,258	(193,816)
Balance, end of period	$ 1,312,317	$ 473,061

NOTE 8 – ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables consisted of the following:

	September 30, 2024	June 30, 2024
Other payables	$ 187,426	$ 174,668
Due to third parties	57,742	59,126
Security deposit	15,719	15,456
Social security payable	293,495	288,578
Salary payable – employees	137,410	58,886
Total	$ 691,792	$ 596,714

Due to third parties were the short-term advance from third party individual or companies, bear no interest and payable upon demand.

NOTE 9 – LOANS PAYABLE

Loan from banks

On December 12, 2022, Beijing Shuhai entered a loan agreement with Shenzhen Qianhai WeBank Co., Ltd for the amount of RMB 900,000 ($ 129,225) with a term of 24 months , the interest rate was 10.728 % to be paid every 20th of each month. For the three months ended September 30, 2024, the Company made a repayment of $ 36,131 to this loan. For the three months ended September 30, 2024, the Company recorded and paid $ 269 interest expense for this loan. As of September 30, 2024, the loan was paid in full.

On January 13, 2023, Shenzhen Jingwei entered a loan agreement with Shenzhen Qianhai WeBank Co., Ltd for the amount of RMB 100,000 ($ 14,552) with a term of 24 months , the interest rate was 8.6832 %. For the three months ended September 30, 2024, the Company made a repayment of $ 4,684 to this loan. For the three months ended September 30, 2024, the Company recorded and paid $ 37 interest expense for this loan. As of September 30, 2024, the loan was paid in full.

On April 10, 2024, Guozhong Times entered a loan agreement with Bank of Beijing for the amount of RMB 500,000 ($ 70,158) with a term of 12 months with a preferential annual interest rate of 3.45 % to be paid every 21 st of each month. For the three months ended September 30, 2024, the Company recorded and paid $ 619 interest expense for this loan. As of September 30, 2024, $ 71,353 was recorded as current liabilities.

On April 23, 2024, Guozhong Times entered a loan agreement with Beijing Rural Commercial Bank Economic and Technological Development Zone Branch for the amount of RMB 550,000 ($ 77,173) with a term of 12 months with the annual interest rate of 4.95 % to be paid every 21 st of each month. For the three months ended September 30, 2024, the Company recorded and paid $ 978 interest expense for this loan. As of September 30, 2024, $ 78,488 was recorded as current liabilities.

On April 25, 2024, Shuhai Beijing entered a loan agreement with Industrial Bank Co., Ltd for the amount of RMB 2,000,000 ($ 280,631) with a term of 12 months with a preferential annual interest rate of 3.88 % to be paid every 21st of each month. For the three months ended September 30, 2024, the Company recorded and paid $ 2,786 interest expense for this loan. As of September 30, 2024, $ 285,413 was recorded as current liabilities. Liu Fu is the guarantor of this loan agreement.

On May 28, 2024, Guozhong Times entered a loan agreement with China Everbright Bank for the amount of RMB 1,000,000 ($ 140,315) with a term of 12 months with the annual interest rate of 3.4 % to be paid every 21 st of each month. For the three months ended September 30, 2024, the Company recorded and paid $ 1,221 interest expense for this loan. As of September 30, 2024, $ 142,706 was recorded as current liabilities.

On June 20, 2024, Shuhai Beijing entered a loan agreement with Bank of China for the amount of RMB 4,000,000 ($ 561,262) with a term of 12 months with a preferential annual interest rate of 2.30 % to be paid every 21st of the third months of each quarter. For the three months ended September 30, 2024, the Company recorded and paid $ 3,034 interest expense for this loan. As of September 30, 2024, $ 570,826 was recorded as current liabilities. Liu Fu is the guarantor of this loan agreement.

The following table summarizes the loan balance as of September 30, 2024:

Lender	Loan amount	Borrowing date	Loan term: Months	Interest rate	Outstanding balance
Bank of Beijing	70,158	4/10/2024	12	3.45%	71,353
Beijing Rural Commercial Bank Economic and Technological Development Zone Branch	77,173	4/23/2024	12	4.95%	78,488
China Everbright Bank	140,315	5/28/2024	12	3.40%	142,706
Bank of China	561,262	6/20/2024	12	2.30%	570,826
Industrial Bank Co., Ltd	280,631	4/25/2024	12	3.88%	285,413
Total	$ 1,269,855				$ 1,148,786

NOTE 10 – RELATED PARTY TRANSACTIONS

On October 1, 2020, the Company's CEO (also the president) entered into an office rental agreement with Xunrui. Pursuant to the agreement, the Company rents an office in Harbin city with a total payment of RMB 163,800 ($ 24,050) from October 1, 2020 through September 30, 2021. On October 1, 2021, Xunrui entered a new seven-month lease for this location with the Company's CEO for total rent of RMB 94,500 ($ 14,690). The lease expired on April 30, 2022. On May 1, 2022, Xunrui entered a new one-year lease agreement for this office with the Company's CEO for an annual rent of RMB 235,710 ($ 35,120), the Company was required to pay the rent before April 30, 2023 but the Company did not pay the rent yet which was due on April 30, 2023 as of this report date. On May 1, 2023, Xunrui entered a new one-year lease agreement for this office location with the Company's CEO for an annual rent of RMB 282,852 ($ 39,144), the Company is required to pay the rent before April 30, 2024. The Company did not pay the rent yet which was due on April 30, 2024 as of this report date. On May 1, 2024, Xunrui entered a new one-year lease agreement for this office location with the Company's CEO for an annual rent of RMB 282,852 ($ 39,657), the Company is required to pay the rent before April 30, 2025. On September 10, 2024, the Company signed a rent reduction agreement with the Company's CEO, reducing the annual rent for the period from May 1, 2022, to April 30, 2025, to RMB 50,000 ($ 7,026), The Company is required to pay the rent before April 30, 2025. The rental expense for this office location was $ 1,756 and $ 9,963 , respectively, for the three months ended September 30, 2024 and 2023.

On July 1, 2022, the Company entered a one-year lease for two cars with the Company's CEO for each car's monthly rent of RMB 18,000 ($ 2,636) and RMB 20,000 ($ 2,876), respectively. On July 1, 2023, the Company entered a new one-year lease for two cars with the Company's CEO for each car's monthly rent of RMB 18,000 ($ 2,491) and RMB 20,000 ($ 2,768), respectively. On July 1, 2024, the Company entered a new one-year lease for two cars with the Company's CEO for each car's monthly rent of RMB 18,000 ($ 2,524) and RMB 20,000 ($ 2,804), respectively. The rental expense for those agreements was $ 16,018 and $ 15,893 , respectively, for the three months ended September 30, 2024 and 2023.

On September 1, 2022, the Company entered a six-month lease for senior officers' dormitory in Beijing for a total rent of RMB 91,200 ($ 13,355), payable every three months in advance. On March 1, 2023, the Company entered a new six-month lease for a total rent of RMB 91,200 ($ 12,621), payable every three months in advance. On September 1, 2023, the Company entered a new one-year lease for a monthly rent of RMB 12,500 ($ 1,743), payable every three months in advance. On September 1, 2024, the Company entered a three-month lease for a monthly rent of RMB 12,500 ($ 1,756), payable in advance. The rental expense for this lease was $ 5,269 and $ 5,981 for the three months ended September 30, 2024 and 2023, respectively.

Due to related parties

As of September 30, 2024 and June 30, 2024, the Company had due to related parties of $ 231,551 and $ 654,560 , respectively. Due to related parties of $ 231,551 at September 30, 2024, mainly consisted of payable of an office lease to the Company's CEO, accrued salary payable, and certain expenses of the Company that were paid by the CEO and her father (one of the Company's directors), bore no interest and payable upon demand. Due to related parties of $ 654,560 at June 30, 2024, mainly consisted of $ 500,213 payable of an office lease from the Company's CEO, accrued salary payable, and certain expenses of the Company that were paid by the CEO and her father (one of the Company's directors), bore no interest and payable upon demand, and 2) $ 154,347 loan payable to a related party (who is the shareholder of the Company), with no interest, and can be repaid any time before December 31, 2024.

Subscription receivables - related parties

On September 27, 2024, the Company entered into subscription agreements with three non-U.S. investors, including Zhixin Liu, the Company's Chairman of the Board, Chief Executive Officer, President and Secretary, and Fu Liu, a Director of the Company, pursuant to which the Company agreed to sell and the investors agreed to purchase an aggregate of 1,932,224 shares of the Company's common stock, at a purchase price of $ 2.06 per share, which was equal to the closing price of the common stock on The Nasdaq Capital Market on September 26, 2024. Pursuant to the terms of the subscription agreements, each Investor must pay the purchase price for the number of shares such Investor purchased within 15 days of the effective date. As of September 30, 2024, the Company issued all the shares to three investors, and the purchase price was received in full from each investor as of October 15, 2024, representing gross proceeds in the aggregate amount of approximately $ 4.0 million. The proceeds raised in the offering will primarily be used to support the Company's future business operations, including investments in acoustic high-tech related products design upgrade, working capital for mass production and on-line sales, acquiring intellectual property, and working capital for the promotion and sales of 5G AI multimodal digital business products.

NOTE 11 – COMMON STOCK AND WARRANTS

Shares Issued for Equity Financing

As of September 30, 2024, the Company issued 1,932,224 shares of the Company's common stock to three non-U.S investors including the Company's CEO and one of the directors, at price of $ 2.06 per share. The Company received the proceeds in full from this offering at October 15, 2024 (see Note 10).

On July 2, 2024, the Company entered into a securities purchase agreement, pursuant to which the Company agreed to issue and sell to an investor in a registered direct offering 179,400 shares of the Company's common stock, at a price of $ 3.25 per share and pre-funded warrants to purchase up to 512,908 shares of Common Stock at a price of $ 3.24 per share with an exercise price of $ 0.01 per share (the "Pre-Funded Warrants"). The Pre-Funded Warrants are exercisable upon issuance and will remain exercisable until all the Pre-Funded Warrants are exercised in full. In connection with the Offering, on July 2, 2024, the Company entered into a placement agency agreement with EF Hutton LLC (the "Placement Agent"). Pursuant to the terms of the placement agency agreement, the Company will pay the placement agent a cash fee of 6.5 % of the gross proceeds the Company receives in the offering at closing. The Company also agreed to reimburse the Placement Agent at the closing of the Offering, for expenses incurred, including disbursements of its legal counsel, in an amount not to exceed an aggregate of $ 75,000 . The closing of the offering occurred on July 3, 2024. The Pre-Funded Warrants were exercised in full as of September 30, 2024. The gross proceeds of the Offering are approximately $ 2.25 million before deducting fees to the Company's placement agent and other offering expenses payable by the Company, for which was $ 0.29 million. The Company intends to use the net proceeds from the Offering for research and development, market development and for general corporate purposes.

Shares Issued for Acquiring Intangible Assets from Related Parties

On August 9, 2024, the Company entered into an intellectual property purchase agreement with Ms. Zhixin Liu, the Company's Chairwoman and CEO, pursuant to which Ms. Zhixin Liu transferred to the Company two intangible assets (software copyrights) owned by her personally. The Committee has decided to grant Zhixin Liu 398,925 restricted shares for the purchase of this software.

On August 9, 2024, the Company entered into an intellectual property purchase agreement with Mr. Fu Liu, the Company's director of board, pursuant to which Mr. Fu Liu transferred to the Company two intangible assets (software copyrights) owned by himself. The Committee has decided to grant Fu Liu 398,925 restricted shares for the purchase of this software.

The purchase was accounted for at the historical cost of the intangible assets which was $ 0 . Fu Liu is the father of Zhixin Liu, together, they own approximately 43.75 % of the Company's common stock prior to this transaction; and they own 51.29 % of the Company's common stock after this transaction.

Shares to Independent Directors as Compensation

During the three months ended September 30, 2024 and 2023, the Company recorded $ 4,500 and $ 4,500 stock compensation expense to independent directors through the issuance of shares of the Company's common stock at the market price of the stock issuance date, pursuant to the 2018 Equity Incentive Plan.

Shares to Officers as Compensation

On September 24, 2021, under the 2018 Equity Inventive plan, the Company's Board of Directors granted 1,000 shares of the Company's common stock to its CEO each month and 667 shares to one of the board members each month starting from July 1, 2021, payable quarterly with the aggregate number of shares for each quarter being issued on the first day of the next quarter at a per share price of the closing price of the day prior to the issuance. On June 12, 2024, the Board of Directors approved that starting from February 1, 2024, the Company agreed to grant 15,000 shares of the Company's common stock to its CEO each month and 1,000 shares to one of the board members each month, payable quarterly with the aggregate number of shares for each quarter being issued on the first day of the next quarter at a per share price of the closing price of the day prior to the issuance. During the three months ended September 30, 2024 and 2023, the Company recorded $ 370,500 and $ 15,600 stock compensation expense to the Company's CEO and one of the board members.

NOTE 12 – INCOME TAXES

The Company is subject to income taxes by entity on income arising in or derived from the tax jurisdiction in which each entity is domiciled. The Company's PRC subsidiaries file their income tax returns online with PRC tax authorities. The Company conducts all of its businesses through its subsidiaries and affiliated entities, principally in the PRC.

The Company's U.S. parent company is subject to U.S. income tax rate of 21 % and files U.S. federal income tax return. As of September 30, 2024 and June 30, 2024, the U.S. entity had net operating loss ("NOL") carry forwards for income tax purposes of $ 6.09 million and $ 5.60 million. The NOL arising in tax years beginning after 2017 may reduce 80 % of a taxpayer's taxable income, and be carried forward indefinitely. However, the Coronavirus Aid, Relief and Economic Security Act ("the CARES Act") passed in March 2020, provides tax relief to both corporate and noncorporate taxpayers by adding a five-year carryback period and temporarily repealing the 80 % limitation for NOLs arising in 2018, 2019 and 2020. Management believes the realization of benefits from these losses remains uncertain due to the parent Company's limited operating history and continuing losses. Accordingly, a 100 % deferred tax asset valuation allowance was provided.

The Company's offshore subsidiary, Shuhai Skill (HK), a HK holding company is subject to 16.5 % corporate income tax in HK. Shuhai Beijing received a tax holiday with a 15 % corporate income tax rate since it qualified as a high-tech company. Tianjin Information, Xunrui, Guozhong Times, Guozhong Haoze, Guohao Century, Jingwei, Shuhai Nanjing are subject to the regular 25 % PRC income tax rate.

As of September 30, 2024 and June 30, 2024, the Company has approximately $ 18.49 million and $ 17.86 million of NOL from its HK holding company, PRC subsidiaries and VIEs that expire in calendar years 2021 through 2025. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends upon the Company's future generation of taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. After consideration of all the information available, management believes that significant uncertainty exists with respect to future realization of the deferred tax assets and has therefore established a full valuation allowance as of September 30, 2024 and June 30, 2024.

The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the three months ended September 30, 2024 and 2023:

	2024	2023
US federal statutory rates	(21.0)%	(21.0)%
Tax rate difference – current provision	(2.8)%	(2.1)%
Permanent difference	4.0%	-%
Effect of PRC tax holiday	(2.3)%	2.7%
Valuation allowance	22.1%	20.4%
Effective tax rate	-%	-%

The Company's net deferred tax assets as of September 30, 2024 and June 30, 2024 is as follows:

	September 30, 2024	June 30, 2024
Deferred tax asset		
Net operating loss	$ 5,093,962	$ 4,777,372
R&D expense	123,750	123,750
Depreciation and amortization	99,590	81,079
Bad debt expense	115,219	116,718
Social security and insurance accrual	56,467	56,343
Inventory impairment	13,431	13,402
ROU, net of lease liabilities	(2,570)	(951)
Total	5,499,849	5,167,713
Less: valuation allowance	(5,499,849)	(5,167,713)
Net deferred tax asset	$ -	$ -

NOTE 13 – COMMITMENTS

Leases

On July 30, 2019, the Company entered into an operating lease for its office in Beijing. Pursuant to the lease, the delivery date of the property was August 8, 2019 but the lease term started on October 8, 2019 and expires on October 7, 2022 , and has a monthly rent of RMB 207,269 without value added tax ("VAT") (or $ 29,250). The lease required a security deposit of three months' rent of RMB 677,769 (or $ 96,000). The Company received a six-month rent abatement, which was considered in calculating the present value of the lease payments to determine the ROU asset which is being amortized over the term of the lease. On October 8, 2022, the Company renewed this lease for another year but for half space of the previous lease, with a monthly rent of RMB 107,714 ($ 15,787). The Company received a one-month rent abatement. The lease expired at maturity without renewal.

On November 8, 2023, Shuhai Beijing entered into a new lease agreement for its office in Beijing. Pursuant to the agreement, the agreement commenced on November 8, 2023 and will expire on December 7, 2024 , and has a monthly rent of RMB 17,358 (or $ 2,425). The deposit was RMB 56,762 (or $ 7,929). The Company received a one-month rent abatement.

On November 8, 2023, Tianjin information entered into a lease agreement for its office in Beijing. Pursuant to the agreement, the agreement commenced on November 8, 2023 and will expire on December 7, 2024 , and has a monthly rent of RMB 60,195 (or $ 8,409). The deposit was RMB 196,838 (or $ 27,496). The Company received a one-month rent abatement.

In August 2020, the Company entered into a lease for an office in Shenzhen City, China for three years from August 8, 2020 through August 7, 2023, with a monthly rent of RMB 209,911 ($ 29,651) for the first year. The rent will increase by 3 % each year starting from the second year. The lease expired at maturity without renewal.

On August 26, 2020, Tianjin Information entered into a lease for the office in Hangzhou City, China from September 11, 2020 to October 5, 2022. The first year rent is RMB 1,383,970 ($ 207,000). The second-year rent is RMB 1,425,909 ($ 202,800). The security deposit is RMB 115,311 ($ 16,400). The total rent for the lease period is to be paid in four installments. On October 6, 2022, Hangzhou took over and renewed this lease for one year, the total rent is RMB 1,178,463 ($ 172,575), payable every six months in advance. In May 2023, the lease was terminated. The total rent expense was RMB 848,620 ($ 122,253) for the year ended June 30, 2023.

On May 10, 2023, Guo Hao Century entered into a lease for the office in Hangzhou City, China from May 10, 2023 to May 9, 2025. The security deposit is RMB 115,311 ($ 7,670). The quarterly rent is as follows:

Start Date	End Date	Rent expense RMB	Rent expense USD
5/10/2023	8/9/2023	43,786	$ 6,060
8/10/2023	11/9/2023	66,038	9,139
11/10/2023	2/9/2024	66,038	9,139
2/10/2024	5/9/2024	64,602	8,940
5/10/2024	8/9/2024	66,038	9,139
8/10/2024	11/9/2024	66,038	9,139
11/10/2024	2/9/2025	66,038	9,139
2/10/2025	5/9/2025	63,884	$ 8,841

On September 30, 2023, the lease was early terminated due to the management's decision of transferring operations in Hangzhou to Beijing headquarter office for maximizing the efficiency and cost saving.

On August 16, 2024, Shenzhen Jingwei entered into a lease agreement for its office in Shenzhen. Pursuant to the agreement, the lease commenced on August 16, 2024 with expiration on August 15, 2027, and has a monthly rent of RMB 48,238 (or $ 6,778). The deposit was RMB 239,068 (or $ 33,592). The Company received a five-month rent abatement.

The Company adopted FASB ASC Topic 842 on July 1, 2019. The components of lease costs, lease term and discount rate with respect of the Company's office lease and the senior officers' dormitory lease with an initial term of more than 12 months are as follows:

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023
Operating lease expense	$ 38,932	$ 74,181

	September 30, 2024	June 30, 2024
Right-of-use assets	$ 212,740	$ 49,345
Lease liabilities - current	90,794	53,530
Lease liabilities - noncurrent	132,541	-
Weighted average remaining lease term	2.53 years	0.36 years
Weighted average discount rate	3.85 % - 6.75%	6.25%

The following is a schedule, by years, of maturities of the operating lease liabilities as of September 30, 2024:

12 Months Ending September 30,	Minimum Lease Payment
2025	$ 90,973
2026	75,723
2027	68,839
Total undiscounted cash flows	235,535
Less: imputed interest	12,200
Present value of lease liabilities	$ 223,335

NOTE 14 – SUBSEQUENT EVENTS

The Company follows the guidance in FASB ASC 855-10 for the disclosure of subsequent events. The Company evaluated subsequent events through the date the financial statements were issued and determined the Company had the following subsequent events that need to be disclosed.

In September 27, 2024, the Company issued 1,932,224 shares of the Company's common stock to three non-U.S investors including the Company's CEO and one of the directors, at price of $ 2.06 per share. The Company received the proceeds in full of this offering on October 15, 2024.

On October 14, 2024, Tianjin Information and Hangzhou Liuhuan Technology Co., Ltd. entered into a patent transfer agreement. According to the terms of the agreement, Hangzhou Liuhuan Technology Co., Ltd. will transfer ownership of two patents to Tianjin Information including:

1) Patent No. 201810008029.2, an audio playback system based on voltage following, with a transfer price of RMB 14.9 million (approximately $ 2.13 million).

2) Patent No. 202210061012.X, a B-ultrasound image detection method and B-ultrasound scanner, with a transfer price of RMB 14.3 million (approximately $ 2.04 million).

As of the reported date, the Company has made a full payment of $ 4.17 million.

In October 2024, the company received approximately RMB 71.26 million (equivalent to $ 10.17 million) cash prepayments from the Company's several customers of 5G AI multimodal digital business.

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

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue, or other financial items; any statements of the plans, strategies, and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions of performance; and statements of belief; and any statements of assumptions underlying any of the foregoing. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as "may," "intend," "might," "will," "should," "could," "would," "expect," "believe," "anticipate," "estimate," "predict," "potential," or the negative of these terms. These terms and similar expressions are intended to identify forward-looking statements. The forward-looking statements in this report are based upon management's current expectations, which it believes are reasonable. However, we cannot assess the impact of each factor on our business or the extent to which any factor or combination of factors, or factors we are aware of, may cause actual results to differ materially from those contained in any forward-looking statements. You are cautioned not to place undue reliance on any forward-looking statements. These statements represent our estimates and assumptions only as of the date of this report. Except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

You should be aware that our actual results could differ materially from those contained in the forward-looking statements due to several factors, including:

- uncertainties relating to our ability to establish and operate our business and generate revenue;
- uncertainties relating to general economic, political, and business conditions in China;
- industry trends and changes in demand for our products and service；
- uncertainties relating to customer plans and commitments and the timing of orders received from customers;
- announcements or changes in our advertising model and related pricing policies or that of our competitors;
- unanticipated delays in the development, market acceptance, or installation of our products and services;
- changes in Chinese government regulations; and
- availability, terms and deployment of capital, relationships with third-party equipment suppliers

Overview

Company Structure

Datasea Inc. is a technology company incorporated in Nevada, USA, on September 26, 2014, with subsidiaries and operating entities located in Delaware, US, and China. The company provides acoustic business services (focusing on high-tech acoustic technologies and applications such as ultrasound, infrasound, and Schumann resonance), 5G application services (5G AI multimodal digital business), and other products and services to various corporate and individual customers.

In the acoustic business sector, Datasea is a global pioneer of the "acoustic effect" concept. Utilizing global leading "Acoustics + AI" precision manufacturing as the digital application framework, and leveraging sound wave technologies combined with acoustic effects as the technological system, the company outputs acoustic high-tech products and solutions worldwide. Datasea strives to be a leader in the development of China's high-tech precision manufacturing in the acoustic industry. Our products have wide-ranging applications across various industries and sectors, including acoustic agriculture, acoustic industry, acoustic medicine, acoustic health, and acoustic IoT technologies. In the 5G application sector, Datasea provides digital and intelligent services to enterprises and individual users in China, leveraging AI, machine learning, and data analytic capabilities to offer a wide range of 5G application products and solutions.

For the three months ending September 30, 2024, our revenue was $21,081,094, reflecting a 206.4% increase compared to the same period in 2023. This revenue growth is primarily due to the rapid expansion of our 5G AI multimodal communication business in China, with the company's 5G AI digital business maintaining a leading position in the industry. Our growing customer base continues to support substantial business growth.

Datasea is not a Chinese operating company but a Nevada-based holding company with its Delaware subsidiary, Datasea Acoustics LLC, serving as our U.S.-based international business platform. Additionally, through the Company's subsidiary in China – Tianjin Information Sea Information Technology Co., Ltd ("Shuhai Tianjin") and the VIE, Shuhai Information Technology Co., Ltd. ("Shuhai Beijing"), we carry out business activities in China, along with their subsidiary entities. Shuhai Beijing possesses cutting-edge products and solutions in acoustics high tech and 5G AI multimodal digital applications to support commercial enterprises, households and individuals in China.

The company has two core businesses: acoustic high-tech products and solutions, and 5G and AI multimodal digital applications, providing support for commercial enterprises, households, and individuals in China.

Datasea is one of the global initiators of the concept of "acoustic high-tech." By leveraging cutting-edge "acoustic + AI" precision manufacturing for digital applications and integrating acoustic technology with digital electronics, we aim to deliver advanced acoustic high-tech products and solutions worldwide, positioning ourselves as a leader and pioneer in China's high-tech precision manufacturing within the acoustic industry.The development and internationalization of acoustic products, including acoustic industry, acoustic agriculture, acoustic medicine, and acoustic health, have always been a crucial strategy for the Company.

On the other hand, Datasea continues to invest in the research and application of 5G AI multimodal digital technology, aiming to provide customers with cutting-edge intelligent solutions. As a pioneer in China's 5G multimodal digital field, Datasea deeply integrates the high-speed, low-latency capabilities of 5G networks with AI and big data processing technologies to create a comprehensive AI multimodal digital platform spanning multiple industries. Datasea's AI multimodal digital products and solutions are widely applied in areas such as rural revitalization, healthcare, and logistics, helping over 48.42 million enterprises and households in China (with over 99% being small and medium-sized enterprises) by providing digital and intelligent services, driving industrial upgrades and fostering innovative development.

The development and internationalization of acoustic products, including acoustic industry, acoustic agriculture, acoustic medicine, and acoustic health, have always been a crucial strategy for the Company. Following the establishment of its wholly-owned subsidiary, Datasea Acoustics LLC, in Delaware in July 2023, the Company has actively implemented its global strategy. As of the date of this report, the Company has partnered with several well-known U.S. online retailers and local smart product distributors to expand the online and physical store distribution of its acoustic-related products in the U.S. Additionally, in collaboration with the renowned U.S. intellectual property firm Paul & Paul, we are actively pursuing patent applications and acquiring high-quality patents to build a strong international intellectual property portfolio. Focusing on the core area of acoustic high-tech, we are seeking potential merger and acquisition targets in acoustic industry applications, acoustic agriculture, acoustic medical aesthetics, acoustic health, and acoustic IoT technologies. This is part of our strategy for international expansion through mergers and acquisitions.

Technology and Innovation

The company focuses on the acoustic high-tech industry, particularly in the research of ultrasound, infrasound, and Schumann resonance technologies. By analyzing and introducing new industry segments within acoustic high-tech, we drive the development and application of these technologies, including in-depth research on non-audible mechanical wave effects, which distinguishes us from others in the field. We combine acoustic chemistry, mechanical transduction, and vibrational dynamics with artificial intelligence (AI), large language models, and data analytics. Our acoustic high-tech products and 5G AI multimodal communication solutions serve over 48.42 million enterprises (with over 99% being small and medium-sized enterprises) and households in China.

Datasea, rooted in the acoustic intelligence industry, is advancing rapidly in terms of technological innovation, product creation, and industry application. The company emphasizes deep domestic and international collaboration and fosters the integration of industry, academia, and research. Focusing on the acoustic intelligence industry, we have established five key segments in the acoustic sector, leading the industry forward and providing cutting-edge acoustic intelligence technologies and products.

The Company holds an outstanding position in the field of acoustics, particularly in areas such as ultrasound, infrasound, and directional sound. To promote research and innovation in these areas, the Company actively collaborates with several prominent research institutions and universities, including Chinese Academy of Sciences Institute of Acoustics, China Academy of Information and Communications Technology Cloud Computing and Big Data Research Institute, Tsinghua University Internet Industry Research Institute, Harbin Institute of Technology Artificial Intelligence Research Institute, Beijing Union University, and Jilin University Remote Sensing Research Institute. The Company, together with these partners, is dedicated to conducting research on new topics and developing novel technology applications to drive advancements in the field of acoustics. To better achieve this goal, the Company collaborated for oint laboratories to enhance the integration and collaboration of research resources. These collaborations and the establishment of these laboratories further solidify the Company's leading position in the field of acoustics, providing a strong foundation for future innovations and development.

China's First White Paper on High-Tech Acoustic Industry.Additionally, the company has jointly released China's first white paper on the high-tech acoustic industry with the Ministry of Industry and Information Technology, the Key Laboratory for Artificial Intelligence Technologies and Applications Evaluation, and the Cloud Computing and Big Data Research Institute of the China Academy of Information and Communications Technology. This white paper provides a comprehensive analysis and authoritative presentation of acoustic technology, its commercialization, and industry prospects. It discusses in detail the application of high-tech acoustics in various sectors, showcases Datasea's proactive initiatives in leading industry development, and highlights the company's leading position in the high-tech acoustic field both in China and globally. The white paper not only demonstrates Datasea's pioneering role in setting industry standards but also further consolidates the company's strategic importance in advancing acoustic technology on both a national and global scale.

Our Business Summary

Acoustics high tech Segment:

We deeply understand the market's demand for new application areas, technologies, and requirements. Therefore, through the relentless efforts of our team, we have achieved leading-edge advancements in acoustic understanding and algorithms. Our company's acoustic technologies and products are widely applied across various industries and fields, including acoustic industrial applications, acoustic agriculture, acoustic medicine, acoustic health, and acoustic IoT technologies.

Acoustic High-Tech is a new field that integrates fundamental acoustic theory with artificial intelligence to collect and process acoustic data and address various challenges. Datasea utilizes advanced technologies in this domain, combining basic acoustic theories with AI to create a robust technology system centered around the effects of research and application of non-audible mechanical wave effects. This includes leveraging ultrasonic technology for sterilization, which effectively combats viruses and prevents infections. The technology exploits the mechanical, thermal, and cavitation effects of ultrasound. When microorganisms, including viruses like the coronavirus, are exposed to ultrasound, they experience intense vibrational strains that disrupt their outer shells and internal RNA. The rapid movement of protons caused by the ultrasound ultimately destroys microbial structures, eliminating harmful pathogens.

Especially in the field of ultrasonic technology, we utilize the cavitation, thermal, and mechanical effects of ultrasound to address various application needs, including disinfection, sterilization, crop drying, safety monitoring, skincare, and medical wellness. For example, in the field of ultrasonic disinfection, when ultrasound stimulates microorganisms (including coronaviruses), it causes significant vibrational strain, disrupting the virus's outer shell and internal RNA. Ultimately, through a combination of mechanical destruction, cavitation effects, and advanced oxidative processes, pathogenic microorganisms are eliminated. This method provides a broad-spectrum, non-selective disinfection alternative to antibiotics.

Leveraging Datasea's cutting-edge acoustic high-tech combined with AI technology, we have successfully developed a series of ultrasonic disinfection products. These include the acoustic health series ultrasonic disinfectors, ultrasonic sterilizers and purifiers for restrooms, bedrooms, living rooms, kitchens, and pets, as well as innovative non-contact ultrasonic skin repair devices. These products are suitable for environments such as hospitals, airports, hotels, transportation, and residential settings. Leading laboratories, including the Wuhan Institute of Virology, have proven that this ultrasonic disinfection technology achieves 99.83% efficacy against Covid-19 within nine seconds and 99.99% efficacy against Staphylococcus Albus and E. coli. This strategic shift aims to offer more effective environmental purification solutions and healthier lifestyles, serving China, the United States, and globally, particularly in the post-pandemic era when there is a higher demand for protection and quality of life.

Recent Development

Our Acoustic Products

As of the end of the three months on September 30, 2024, the company has developed a range of products, including intelligent sonic air purifiers, ultrasonic sterilization and disinfection devices, and the Sleep Guardian for health improvement. These products offer a healthier living experience through efficient, safe, and eco-friendly methods.

The company continues to intensify market promotion for its acoustic business, with its "Datasea Sky Ear" brand leveraging unique ultrasonic and Schumann wave technologies. By utilizing sound wave properties, it enhances the effectiveness of air purification, sterilization, and environmental improvement, enabling applications in disinfection and sterilization, crop drying, security monitoring, beauty and skincare, as well as medical and wellness support. Additionally, by using ultrasonic and mechanical sound wave technologies, along with applying sound waves and oscillations at appropriate frequencies to the human body, these technologies aim to promote blood circulation, regulate organ functions, and support overall health, achieving preventative and therapeutic effects. Benefits include improved sleep quality, prevention of dementia, and nerve repair.

Sales and Distribution

As of the date of this report, the company implemented a new marketing strategy that includes: 1) covering multiple e-commerce platforms through brand building, product packaging, and multi-channel marketing combined with a refined pricing strategy; and 2) close collaboration with market promotion channel partners to drive product launches, increase sales volume, and expand market influence.

1) Online Distributors and Living Stream

This integrated marketing approach has helped the company rapidly increase market share and brand awareness.

Ø Marketing Channels: The strategy spans platforms such as Tmall, JD.com, Douyin, Xiaohongshu, Dewu, Weibo, and Video Channels. Tmall and JD.com focus on brand exposure and promotional activities, while Douyin leverages short videos and live-streamed sales, combining influencer partnerships (with over a hundred influencers) and a distribution model to expand influence. Xiaohongshu and Dewu build user interest through "seeding" and community marketing, while Weibo and Video Channels attract followers through educational content and topic marketing.

Ø Brand and Product Packaging: The company promotes a minimalistic yet premium brand image, showcasing its global leadership in sonic technology and commitment to a healthy lifestyle. The main acoustic product, the "Clean & Comfort Protector," features multi-functions like air purification, sterilization, and odor removal, and is marketed comprehensively for diverse consumer scenarios.

Ø Product Positioning Strategy: Product pricing is targeted at the mid-to-high-end market. The company also offers various discounts and promotions tailored to platform events or partner requirements to enhance sales appeal.

2) Market Promotion Team

The company continued to collaborate with three influential Chinese market promotion enterprises, which leverage extensive market resources to recommend new clients for the company and facilitate the signing of contracts with these new clients.

Key Customers and Agreements

On June 16, 2024, the Company's wholly-owned subsidiary, Shuhai Jingwei (Shenzhen) Information Technology Co., Ltd. ("Shuhai Jingwei"), entered into a Sales Agreement (the "Agreement") with Tianjin Qianli Culture Communication Co., Ltd. ("Qianli Culture") for the sale of approximately $2.6 million (RMB 18.6 million) of the Company's acoustic high tech products. This Agreement follows the signing of two acoustic product sales agreements in April 2024, for a total of approximately $18 million. This Agreement sustains expected acoustic product sales as well as overall Company revenue growth.According to the Agreement, Qianli Culture will purchases approximately 31,000 units of Datasea's' 'Tianer' and 'Star Sleep' branded products by December 31, 2024, which encompass the Company's air disinfection machines, restroom deodorization and disinfection devices and sleep aids The total sales contract is for approximately $2.6 million (RMB 18.6 million).

5G AI multimodal digital Segment

Our achievements of 5G AI Multimodal digital

5G AI multimodal digital Segment

Datasea continues to invest in the research and application of 5G AI multimodal digital technology, committed to providing customers with leading intelligent solutions. As a pioneer in China's 5G multimodal digital field, Datasea deeply integrates the high-speed and low-latency characteristics of 5G networks with AI and big data processing technologies to create a comprehensive AI multimodal digital platform that spans multiple industries. This platform integrates various data forms, such as text, audio, and video, enabling efficient information generation, precise transmission, and automation. It provides enterprise clients with high-quality services, including data packages and new media marketing. Powered by AI, Datasea's 5G platform enhances customer acquisition, marketing, and brand building efficiency while creating new opportunities for digital transformation and business models. Datasea's 5G products and solutions are widely applied in rural revitalization, healthcare, and logistics, providing digital and intelligent services to over 48.42 million enterprises and households in China (with more than 99% being small and medium-sized enterprises), driving industrial upgrades and innovative development.

Recent Development

Datasea's core advantages and existing 5G AI multimodal digital products

As one of China's leading service providers in the 5G AI multimodal digital business field, Datasea's 5G AI multimodal digital products deeply integrate text messages, multimedia messages, conversation messages, and value-added services. These products not only support various application services but also enable real-time communication with user terminals through a native SMS application channel. With an intelligent service system, the entire process is automated, allowing for self-service responses to customer needs, significantly improving service efficiency, response speed, and user experience.

Datasea has utilized advanced AI processing technology to carry out a comprehensive technological upgrade to its 5G AI multimodal digital business, resulting in disruptive functionality enhancements. Currently, the platform can intelligently generate and process various information formats such as sound, text, images, and video with high precision and efficiency. Additionally, leveraging AI digital human technology, the platform enables automated marketing, intelligent content creation, and efficient information transmission in the marketing field, creating a powerful video matrix and precision marketing tools. This technological innovation offers customers a new level of brand building, customer acquisition, and marketing solutions, significantly driving revenue growth and helping clients stand out in the competitive market. Through the low-latency and high-speed transmission features of 5G, Datasea's products not only achieve real-time data interaction but also support large-scale, customized, multi-channel content distribution, creating new business models and marketing opportunities for enterprises.

IV. The Company's 5G AI Multimodal Digital Business Products and Product Value

As one of the leading service providers in China's 5G AI multimodal digital business field, Datasea's 5G AI multimodal digital products integrate text messages, multimedia messages, conversation messages, and value-added services to create a highly intelligent, comprehensive digital platform with solutions spanning multiple industries, including rural revitalization, logistics, and the beauty industry. Datasea's 5G AI multimodal digital business solutions provide 5G digital and intelligent services, as well as various value-added services, to more than 48.42 million enterprises and institutions (over 99% of which are small and medium-sized enterprises) and households in China.

Datasea's 5G AI multimodal digital platform and solutions not only support a wide range of application services but also leverage a native SMS application channel for instant communication with user terminals. With an intelligent service system, the entire process is fully automated, requiring no manual intervention, enabling self-service responses and handling of customer needs. This significantly improves service efficiency, response speed, and user experience.

The platform operates through cloud computing and SaaS models, supporting cross-industry applications, including digital transformation solutions from rural revitalization to logistics and the beauty industry. In rural revitalization, the solution offers smart agriculture management and infrastructure optimization, improving efficiency, reducing waste, and supporting rural modernization. Through precision agriculture, remote healthcare, and education services, the solution enhances rural living standards. In the logistics sector, intelligent warehousing, sorting, and unmanned delivery solutions help reduce costs and improve efficiency, driving the digital transformation of logistics and providing faster, more reliable services, especially in remote areas. For the beauty industry, smart customer management, personalized services, and remote consultations enhance service quality and customer satisfaction, fostering industry innovation and offering consumers more personalized and efficient beauty services.

Sales and Distribution

Through its independently developed 5G AI multimodal digital business platform, Datasea continues to support the digital transformation and upgrade of cities and enterprises in the Chinese market. Recently, in terms of customer acquisition and marketing, the company has implemented a series of strong measures to drive sales, achieving explosive growth in sales.

Through its own sales team, the Company vigorously promotes and publicizes the Company's research and development results and technology display in 5G sales, actively participates in important seminars and business fairs around the country, and deeply explores the target customers related to 5G news. Through painstaking efforts and keen business acumen, we have obtained a stable customer flow.

Furthermore, the Company also continued cooperation with professional 5G news business promotion team, and signed 5G communication marketing service agreements with some marketing companies that have many years of advantages in Internet of Things market development, operation and promotion services, have effective integration with mobile Internet enterprises, Internet of Things industry chain and other resources, and have strong channel expansion and sales and operation capabilities, to carry out in-depth cooperation. Quickly and effectively recruit high-quality partners for the Company to achieve rapid economic value transformation. Third party marketing companies bring us a large number of customers, which is our total sales growth engine.

Finally, we have also carried out some preferential activities and implemented different discount policies for customers. Through preferential activities to attract customers to participate in cooperation, increase customer participation and loyalty, thereby increasing sales artery.

Key Customers and Agreements

During the reporting period, the company broke the business expansion, in the promotion of a large number of small customers nationwide at the same time, improve the number of large customers signed, and continue to successfully sign large customers, such as: Qingdao Ruizhi Yixing Information Technology Co., LTD., Shanghai Shixun Network Technology Co., LTD., Wuhan Xiaoming Technology Co., LTD., Xinyi Xinfan Information Technology Co., LTD.

On August 9, 2024, Datasea's operating entity in China, Shuhai Information Technology Co., LTD. ("Shuhai Beijing"), entered into an agreement with Shanghai Shixun Network Technology Co., LTD. (hereinafter referred to as "Shixun Network"). The agreement stipulates that the company will purchase 5G AI multimodal data cards of various denominations within 12 months after the agreement comes into effect, with prices ranging from 10 yuan to 500 yuan ($1.38 to $69.4). From July 1 2024 to September 30 2024, the revenue from Shanghai Shixun Network Technology Co., LTD reached RMB10,981,054 Yuan(equivalent to US $1,542,956).

On August 9, 2024, Datasea's operating entity in China, Guozhong Times (Beijing) Technology Co., LTD. ("Guozhong Times"), a subsidiary of Suhai Information Technology Co., LTD. ("Shuhai Beijing"), entered into an agreement with Wuhan Xiaoming Technology Co., LTD. (hereinafter referred to as "Xiaoming Technology"). The agreement provides for the purchase of 5G AI multi-modal data recharge cards in various denominations within 12 months after the agreement takes effect, with prices ranging from 10 yuan to 500 yuan ($1.38 to $69.4). From July 1 2024 to September 30 2024, the revenue from Wuhan Xiaoming Technology Co., LTD reached RMB5,114,995Yuan(equivalent to US $718,712).

On August 12, 2024, Datasea's operating entities in China, Shuhai Information Technology Co., LTD. ("Suhai Beijing")\ Heilongjiang Xungrui Technology Co., LTD. ("Xungrui Technology"), Shuhai Jingwei (Shenzhen) Information Technology Co., LTD. ("Shuhai Jingwei"), Guozhong Haoze (Beijing) Technology Co., LTD. ("Guozhong Haoze") and Guozhong Times (Beijing) Technology Co., LTD. ("Guozhong Times") entered into an agreement with Qingdao Ruizhiyixing Information Technology Co., LTD. (hereinafter referred to as "RuizhiYixing"). The agreement provides for the purchase of 5G AI multi-modal data recharge cards in various denominations within 12 months after the agreement takes effect, with prices ranging from 10 yuan to 500 yuan ($1.38 to $69.4). From July 1 2024 to September 30 2024, the revenue from Qingdao Ruizhiyixing Information Technology Co., LTD reached RMB129,438,879 Yuan(equivalent to US $18,187,560).

On September 24, 2024, Datasea's operating entity in China, Guozhong Haoze (Beijing) Technology Co., LTD. ("Guozhong Haoze"), a subsidiary of Shuhai Information Technology Co., LTD. ("Shuhai Beijing"), entered into an agreement with Xinyi Fanfa Information Technology Co., LTD. (hereinafter referred to as "Fanfa Technology"). The agreement provides for the purchase of 5G AI multi-modal data recharge cards in various denominations within 12 months after the agreement takes effect, with prices ranging from 10 yuan to 500 yuan ($1.38 to $69.4). From July 1 2024 to September 30 2024, the revenue from Xinyi Fanfa Information Technology Co., LTD reached RMB4,457,699Yuan(equivalent to US $626,356).

Market Results

Through its independently developed 5G AI multimodal digital business platform, Datasea is supporting the digital transformation and upgrade of cities and enterprises in the Chinese market. In terms of customer acquisition and marketing, the company has implemented a series of strong measures to drive sales, achieving explosive growth. By the end of this fiscal year, the company's main source of revenue came from service fees related to its 5G AI multimodal digital business services, The revenue from July 1 2024 to September 30 2024 reached $21,081,094, reflecting a 206.38% increase compared to the same period in 2023. The revenue growth is primarily due to the rapid expansion of China's 5G AI multimodal digital business, with Datasea's 5G AI multimodal digital business maintaining a leadership position in the industry. The continuous growth of the customer base supports the company's significant business expansion.

ESG Management

During the reporting period, Datasea remains committed to advancing its ESG (Environmental, Social, and Governance) management framework, strengthening our competitive edge in sustainable development, and making notable progress across multiple areas. Specifically, the company has taken targeted measures in supply chain management and office environment optimization to enhance its commitment to environmental sustainability, demonstrating Datasea's practical actions in the ESG space.

First, as part of the company's ongoing ESG strategy, Datasea prioritized environmental responsibility, social impact, and governance performance in the selection of new suppliers for its acoustics business this quarter. Through a rigorous evaluation process, Datasea focused on selecting suppliers who have demonstrated a commitment to sustainability and possess a positive record in environmental protection. Specifically, the company assessed potential suppliers' use of sustainable materials, carbon emission management, and energy efficiency improvement measures, ensuring that all chosen partners are closely aligned with Datasea's ESG goals. This approach not only enhances Datasea's ESG compliance but also strengthens the company's leadership in sustainable development within the industry. By incorporating this new strategy, Datasea fortifies supply chain sustainability, setting a new standard for responsible practices that align with global best practices in environmental and social accountability.

Second, Datasea's Shenzhen subsidiary, Shenzhen Jingwei, has relocated to an energy-efficient office building this quarter. This new office space not only optimizes space usage but also incorporates sustainable and energy-saving design concepts in its architecture and facilities. The office features high-efficiency energy systems, including smart lighting controls, environmentally friendly cooling, and ventilation systems, aimed at minimizing energy consumption and greenhouse gas emissions. Additionally, eco-friendly materials with a low carbon footprint were prioritized in the office renovation and layout design, reducing emissions during the renovation process and ensuring a safe and healthy indoor environment that complies with environmental standards.

By implementing these energy-saving measures, Datasea further reduces its operational environmental impact, demonstrating proactive environmental management. The new office space not only meets Datasea's needs for a sustainable workplace but also showcases how to implement efficient and environmentally friendly management practices in operations. This transition also provides employees with a greener, healthier work environment, encouraging them to embrace ESG principles and contribute to Datasea's steady progress in sustainable development.

Datasea will continue to enhance its ESG management framework responsibly, regularly assessing the effectiveness of ESG initiatives and reporting progress to ensure that business practices align with sustainability commitments. The company will continue to seek innovative solutions in future supply chain management and office environment initiatives, further advancing green development and social responsibility in the industry and realizing long-term goals for sustainable growth.

Going Concern

The accompanying unaudited consolidated financial statements were prepared assuming the Company will continue as a going concern, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business. For the three months ended September 30, 2024 and 2023, the Company had a net loss of approximately $1.96 million and $22,056, respectively. The Company had an accumulated deficit of approximately $41.40 million as of September 30, 2024, and negative cash flow from operating activities of approximately $0.73 million and $6.74 million for the three months ended September 30, 2024 and 2023, respectively.

The historical operating results indicate the Company has recurring losses from operations which raise the question related to the Company's ability to continue as a going concern although the range of such recurring operating losses has narrowed in recent years. There can be no assurance the Company will become profitable or obtain necessary financing for its business and investments or that it will be able to continue in business and investments. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. As of September 30, 2024, the Company had cash of $937,606.

We continue to bring in additional investors to support our company's research and development, marketing and operations. On August 1, 2023, the Company entered into two separate subscription agreements with a certain non-U.S. investor, pursuant to which the Company agreed to sell and the investor agreed to purchase an aggregate of 4,760,000 shares of common stock price at a $1.2 per share purchase price. Such shares must be held for a period of 365 days. In accordance with such two agreements, Investor shall pay a total purchase price of $5,712,000 in RMB, at an amount of RMB 40,000,000, no later than September 30, 2023. On September 21, the Company has received all of the payment of RMB 40,000,000.

On August 15, 2023, the Company entered into a subscription agreement with a non-U.S. investor to purchase an aggregate of 2,962,963 shares of common stock price at a $1.35 per share purchase price, with a total subscription price of $4,000,000. The shares must be held for a period of 180 days. On September 13, 2023, our Company announced the closing of an underwritten public offering of 5,000,000 shares of common stock at a public offering price of $0.40 per share, for net proceeds of $1,635,000, after deducting underwriting discounts and other offering expenses. On July 3, 2024, we closed an offering for net proceeds of $2.2 million after deducting underwriting discounts and other offering expenses. We believe these fundings demonstrate our investors' confidence in our strategy and business.

On October 3, 2024, Datasea Inc., a Nevada corporation (the "Company"), entered into subscription agreements, dated September 27, 2024 (the "Subscription Agreements"), with three non-U.S. investors (the "Investors"), including Zhixin Liu, the Company's Chairwoman of the Board, Chief Executive Officer, President and Secretary, and Fu Liu, a Director of the Company, pursuant to which the Company agreed to sell and the Investors agreed to purchase an aggregate of 1,932,224 shares (the "Shares") of the Company's common stock, par value $0.001 per share ("Common Stock"), at a purchase price of $2.06 per share (the "Purchase Price"), which was equal to the closing price of the Common Stock on The Nasdaq Capital Market on September 26, 2024 (the "Offering"). Pursuant to the terms of the Subscription Agreements, each Investor was required to pay the Purchase Price for the number of Shares such Investor purchased within 15 business days of September 27, 2024. As of October 15, 2024, the Company had received the Purchase Price from each Investor, representing gross proceeds in the aggregate amount of approximately $4.0 million, and all of the Shares had been issued. The proceeds raised in the Offering will primarily be used to support the Company's future business operations, including investments in acoustic high-tech related products design upgrade, working capital for mass production and on-line sales, acquiring intellectual property, and working capital for the promotion and sales of 5G AI multimodal digital business products.

If deemed necessary, management could seek to raise additional funds by the way of introducing strategic investors or private or public offerings, or by obtaining loans from banks or others, to support the Company's research and development, procurement, marketing and daily operation. However, there can be no assurance that additional funds will be available when needed from any source or, if available, will be available on terms that are acceptable to us. We may be required to pursue sources of additional capital through various means, including debt or equity financings.

Future financings through equity investments are likely to be dilutive to existing stockholders. Also, the terms of securities we may issue in the future capital transactions may be more favorable for new investors. Further, we may incur substantial costs in pursuing future capital and/or financing, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. Our ability to obtain needed financing may be impaired by such factors as the capital markets and our history of losses, which could impact the availability or cost of future financings. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, is not sufficient to satisfy our capital needs, even to the extent that we reduce our operations accordingly, we may be required to cease operations.

Sustainable operation can help enterprises improve operating efficiency, enhance the competitiveness of enterprises, and enhance the market share of enterprises.

Sustainable operation can help enterprises better control risks, reduce operating costs, and ensure the safety of enterprises

Sustainable operation can help enterprises enhance their social image and enhance their sense of social responsibility.

Sustainable operation can help enterprises better grasp market opportunities, grasp market trends, and achieve a win-win situation between enterprises and society.

Significant Accounting Policies

Please refer to our significant accounting policies in Note 2 to our consolidated financial statements included in this report.

Recent Developments

On July 2, 2024, the Company entered into a securities purchase agreement (the "Purchase Agreement") to issue and sell to an investor in a registered direct offering (the "Registered Direct Offering") 179,400 shares of Common Stock at $3.25 per share and pre-funded warrants to purchase up to 512,908 shares of Common Stock at $3.24 per share with an exercise price of $0.01 per share (the "Pre-Funded Warrants").

The securities in the Registered Direct Offering were issued under the Company's shelf registration statement on Form S-3 (File No. 333-272889), filed with the SEC on June 23, 2023, and declared effective on July 21, 2023. A prospectus supplement was filed with the SEC on July 3, 2024.

The Pre-Funded Warrants are exercisable upon issuance and remain so until fully exercised. If the Company fails to deliver shares upon valid exercise of the Pre-Funded Warrants, it must pay the holder liquidated damages as outlined in the warrants. The warrants also provide customary buy-in rights should the Company fail to deliver shares within specified timeframes.

Under the Pre-Funded Warrants' terms, a holder may not exercise the warrant if it would result in ownership of more than 4.99% of the outstanding shares of Common Stock, unless the holder elects to increase this limit to 9.99% with 61 days' notice to the Company.

Under the Purchase Agreement, the Company agreed not to issue, enter into any agreement to issue, or announce the issuance or proposed issuance of any Common Stock or equivalents, nor to file any new registration statement, for 60 days after the Registered Direct Offering's closing. The Company also agreed not to enter into any variable rate transactions while the investor holds any pre-funded warrants.

The Registered Direct Offering closed on July 3, 2024, with gross proceeds of approximately $2.25 million, before deducting fees payable to the Placement Agent and other expenses. The Company intends to use the net proceeds for R&D, market development, and general corporate purposes.

In connection with the Registered Direct Offering, the Company entered into a placement agency agreement (the "Placement Agency Agreement") with EF Hutton LLC on July 2, 2024. Under this agreement, the Company will pay the Placement Agent a cash fee of 6.5% of the gross proceeds and reimburse expenses up to $75,000.

Additionally, as a condition to the closing of the Purchase Agreement, the Company's officers and directors entered into "lock-up" agreements, prohibiting them from disposing of any Company securities for 60 days from the Registered Direct Offering's closing date, subject to certain exceptions.

As disclosed in a Current Report on Form 8-K filed with the Securities and Exchange Commission on October 3, 2024, the Company entered into subscription agreements dated September 27, 2024 (the "Subscription Agreements") with three non-U.S. investors, including Zhixin Liu, the Company's Chairwoman, CEO, President, and Secretary, and Fu Liu, a Director of the Company. Under these agreements, the Company agreed to sell, and the Investors agreed to purchase, a total of 1,932,224 shares of common stock, par value $0.001 per share ("Common Stock"), at a purchase price of $2.06 per share, which was the closing price on the Nasdaq Capital Market as of September 26, 2024 (the "Offering"). Each Investor was required to pay for their Shares within 15 business days of September 27, 2024.

As of October 15, 2024, the Company received the purchase price from each Investor, totaling approximately $4.0 million, and all Shares have been issued. The proceeds from the Offering will primarily support the Company's future operations, including investments in high-tech acoustic product design upgrades, mass production, online sales, IP acquisition, and marketing for its 5G AI multimodal digital business products.

Results of Operations

Comparison of the three months ended September 30, 2024 and 2023

The following table sets forth the results of our operations for the three months ended September 30, 2024 and 2023, respectively, indicated as a percentage of net sales. Certain columns may not add up due to rounding.

	2024	% of Revenues	2023	% of Revenues
Revenues	$ 21,081,094		$ 6,880,743	
Cost of revenues	20,884,113	99.1%	6,806,008	98.9%
Gross profit	196,981	0.9%	74,735	1.1%
Selling expenses	996,049	4.7%	84,447	1.2%
Research and development	103,079	0.5%	155,004	2.3%
General and administrative expenses	1,128,403	5.4%	693,060	10.1%
Total operating expenses	2,227,531	10.6%	932,511	13.6%
Loss from operations	(2,030,550)	(9.6)%	(857,776)	(12.5)%
Non-operating income (expenses), net	59,881	0.3%	(7,758)	(0.1)%
Loss before income taxes	(1,970,669)	(9.3)%	(865,534)	(12.6)%
Income tax expense	-	-%	-	%
Loss before noncontrolling interest from continuing operation	(1,970,669)	(9.3)%	(865,534)	(12.6)%
Income before noncontrolling interest from discontinued operation	-	-%	833,546	12.1%
Less: loss attributable to noncontrolling interest from continuing operation	(8,680)	(0.04)%	(9,932)	(0.1)%
Net loss to the Company from continuing operation	(1,961,989)	(9.3)%	(855,602)	(12.4)%
Net income (loss) to the Company from discontinued operation	-	-%	833,546	12.1%
Net loss to the Company	$ (1,961,989)	(9.3)%	(22,056)	(0.3)%

Revenues

We had revenues of $21,081,094 and $6,880,743 for the three months ended September 30, 2024 and 2023, respectively, which shows a $14,200,351 increase by comparing with the same period of 2023, an increase of 206.4% over the same period last year. The increase in revenues was mainly due to the rapid increase of 5G AI multimodal digital business in China. For the three months ended September 30, 2024, revenues mainly consisted of service fees from our 5G AI Multimodal digital. The company's 5GAI multimodal digital business is an industry leader, and the continued expansion of the company's customer base supports the continued significant improvement of the business.

From July 1, 2024 to September 30, 2024, the Company generated revenue of $21,081,094, including $21,075,584 from the 5G AI multimodal digital business, $3,046 from Smart City Business, $2,464 from Acoustic Intelligence Business. From July 1, 2023 to September 30, 2023, the Company generated revenue of $6,880,743, including $6,880,463 from the 5G messaging business and $280 from the acoustic intelligence.

This is inseparable from the Company's research and development support and personnel support over the years, the Company's upstream and downstream chain maintenance and experience accumulation and precipitation eventually formed a huge loyal customer base, but also closely related to the thriving vitality of the 5G market.

Through its own sales team, the Company vigorously promotes and publicizes its research and development results and technology display in 5G sales, actively participates in important seminars and business fairs around the country, and deeply explores the target customers related to 5G news. Through painstaking efforts and keen business acumen, we have actually obtained a stable customer flow.

The Company's top five customers for 5G AI multimodal digital business at this stage are Xiamen Duoqiao Mai Network Technology Co., LTD., Hainuo Xintong (Qingdao) Network Technology Co., LTD., Qingdao Osaidi Network Technology Co., LTD., Qingdao Ruicheng Lida Network Technology Co., LTD., and Weihai Hongyun Shihao Information Technology Co., LTD.. Through close business cooperation, the above customers have become stable and loyal partners of the Company, and will work together in the future.

In terms of marketing promotion, the Company has hired a professional cooperative marketing team to introduce and recruit suitable and high-quality stable customers for the Company. From the fourth quarter of 2023, the sales of the Company's 5G Multimodal communication business has witnessed explosive growth, and the sales in the second quarter of 2024 have significantly increased compared with the previous quarter.

At present, the Company's research and development technology in 5G AI multimodal digital is leading in the industry. After long-term expansion of customer groups, it has formed a stable customer group. At present, the Company has also hired a professional 5G Multimodal communication business promotion team. We signed 5G communication marketing service agreements with some marketing companies that have many years of advantages in iot market development, operation and promotion services, have effective integration with mobile Internet enterprises, iot industry chain and other resources, and have strong channel expansion and sales and operation capabilities to carry out in-depth cooperation. This business segment belongs to the stable growth of the company's business, and in the future, the company will continue to grow steadily, steadily and rapidly in the 5G AI multimodal digital business segment.

Cost of Revenues

We recorded $20,884,113 and $6,806,008 cost of revenues for the three months ended September 30, 2024 and 2023, respectively, which shows a $14,078,105 increase by comparing with the same period of 2023. For the three months ended September 30, 2024, cost of revenues was mainly the 5G AI multimodal digital platform fees and Cloud Platform construction to suppliers. The increase in cost of revenues was due mainly to the increased revenue of 5G AI multimodal digital. For the three months ended September 30, 2024, the cost of 5G AI multimodal digital was $20.88 million, the cost of smart city was $1,716 and the cost of Acoustic Intelligence business was $409. For the three months ended September 30, 2023, the cost of 5G messaging was $6.81million, and the cost of intelligent acoustics business was $141.

Gross Profit

Gross profit for the three months ended September 30, 2024 was $196,981 compared to $74,735 for the three months ended September 30, 2023, which shows a $122,246 increase by comparing with the same period of 2023. The increase in gross profit was mainly due to the increase in sales for the three months ended September 30, 2024.

Gross margin is 0.9% and 1.1% for the three months ended September 30, 2024 and 2023. The decrease in gross margin was mainly due to the lower gross profit margin of 5G AI multimodal digital service.

Measures to improve the gross profit margin of enterprises:

1. Reasons for the Company's choice of temporary cost leadership strategy: Due to the fierce competition in the 5G AI multimodal digital business market, the Company has established a good cooperative relationship with major customers in order to quickly occupy the market, promote the Company's 5G AI multimodal digital business, and temporarily yield profits at this stage, which is a period of market expansion.

2. Sales rebate and marketing reasons: In the marketing of 5G AI multimodal digital business, centralized procurement is made for customers' prepaid accounts to ensure the security of the Company's funds. At this stage, sales to customers have a certain amount of sales rebates and marketing expenses.

3. According to the progress of the Company's strategic development, the cost of marketing promotion and sales rebate will be reduced and the gross profit rate will gradually increase after the customer group is stable and competitive.

4. The Company vigorously expands 5G related businesses, the most important purpose is to obtain market traffic and improve market brand influence. It can let more people know about the Company, and increase its exposure and visibility. 5G related services have become a tool to attract traffic and improve brands, which can drive revenue of other projects.4.

5. Actively carrying out 5G AI multimodal digital related business can attract more users' attention and establish a good interactive relationship with users, which can firmly obtain a large number of loyal long-term user groups for the company, which has great potential for us to expand other revenue businesses and obtain new profit growth. It can drive business and revenue expansion in 5G refueling cards, 5G Internet of Things and other fields.

6. Upgrade the business model, add new acoustic intelligent products, different industry application fields, and high additional fields to improve the gross profit margin.

From the perspective of market prospects, according to the prediction of Global Association for Mobile Communication Systems, by 2025, the number of 5G connections in China will exceed the sum of North America and Europe, ranking first in the world. The number of 5G connections will reach 460 million, accounting for 28% of the total connections in the country. 5G messaging has become an international standard.2 China will become one of the largest single contributors to the global growth of mobile internet users in the coming years, accounting for nearly 20% of the total global increase.

Combining the advantages of "Internet of Things+" intelligent terminals and 5G messaging industry chain, Shuhai Beijing is advancing with the time, taking the train of the 5G era, and developing 5G Multimodal communication/phone top up business. At this stage, Shuhai Beijing is carrying out the development, operation and promotion services of the Internet of Things market and increasing the effective combination of resources with Mobile Internet enterprises and the Internet of Things industrial chain.

In 2023, the 5G AI multimodal digital business of Shuhai Information accounts for a relatively big proportion of the total revenue, because, at this stage, the business belongs to the early stage of the development, operation and promotion services of the Internet of Things market, and the investment in all aspects is large. In addition, the gross profit of the traffic top up business is generally low. As a result, the annual gross profit margin decreased from the previous year. The Company's focus in this business is to integrate new resources, expand new businesses related to 5G, combine the Company's years of deep cultivation and accumulation in 5G news, and take this opportunity to open up more 5G-related businesses to increase the Company's revenue and new business.

In China's mature and transparent market today, gross margins on services are far greater than those on hardware sales. The improvement of gross profit margin shows that the Company's measures to improve gross profit margin are gradually showing effect: 1) costs will be reduced by economic scale over a larger number of customers base and the increase in production; 2) the Company, by adopting the differentiation strategy, grows brand recognition and customer loyalty, strengthening the Company's pricing power; 3) As the scale of 5G AI multimodal communicaiton traffic top up services and the number of serviced customers, along with service quality, continue to improve, customized and value-added services, as well as service fees, will gradually increase. This will boost the profitability of the Company's related businesses. The Company will continue to increase the share of high gross profit products in the sales while increasing the revenue, so as to further improve the gross profit rate and give investors a better return on investment.

Selling, General and Administrative, and Research and Development Expenses

Selling expenses were $996,049 and $84,447 for the three months ended September 30, 2024 and 2023, respectively, representing an increase of $911,602 or 1,079.5%. The increase was mainly due to the increased advertising and marketing expenses by $884,401, increased service fee by $16,992 and increased other selling expenses by $10,209.

Currently, we are focusing on expanding the Company's leadingacoustics high tech technologies and products and continuing to develop 5G-related applications. We incurred R&D expenses of $103,079 and $155,004 during the three months ended September 30, 2024 and 2023, respectively, which shows a $51,925 or 33.5% decrease by comparing with the same period of 2023.

Research and development expenses of $103,079 for three months ended September 30, 2024. The Company's research and development results include but are not limited to the following:

As one of the leading service providers in China's 5G AI multimodal digital field, Datasea has several primary products and services targeting different customers and needs, including: 5G AI multimodal new media marketing service platform,5G AI multimodal Smart Agriculture (Digital Rural) Service Platform, 5G AI multimodal platform for small and micro-enterprise services platform and 5G AI multimodal traffic top up platform. 5G AI multimodal digital business applications applicable to various industries in China, and payment system applications combined with artificial intelligence (AI), big prediction mode and data analysis capabilities.

Datasea has completed a revolutionary upgrade of its core 5G multimodal communication business with AI processing technology. Currently, it can achieve AI creation and generation of various information forms including sound, text, images, and videos, as well as efficient transmission and AI digital human marketing functions. This capability can empower numerous industries and clients with potent marketing and video matrix capabilities. It can contribute to clients in brand enhancement, customer acquisition, market promotion, and revenue uplift.

In the field of acoustic high-tech business, the company is one of the units that proposed the concept of "acoustic effect" in the world, and exports acoustic high-tech products and solutions to the world. The company combines basic acoustic theory with artificial intelligence, takes acoustic technology and acoustic effect as the technical system, and researches and applies non-audible mechanical wave effects to collect and process acoustic data and solve problems. Datasea utilizes cutting-edge technologies in the field of acoustic high technology and has the world's leading acoustic equipment to acoustic algorithm models. Acoustic technology and products are widely used in various industries and fields, including acoustic agricultural applications, acoustic industrial applications, acoustic medical, acoustic health and acoustic iot technology. Especially in the field of ultrasonic technology, the use of ultrasonic cavitation effect, thermal effect, mechanical effect to solve the needs of various application scenarios, to achieve disinfection and sterilization, crop drying, safety monitoring, beauty and skin care and medical health and other applications.

Our Acoustics and 5G intelligent products and solutions are able to serve more than 48.42 million enterprises and businesses of all types (over 99% are SMEs) and households in China with digital and intelligent services.

Market Promotion Team

The company has collaborated with three influential Chinese market promotion enterprises, which leverage extensive market resources to recommend new clients for the company and facilitate the signing of contracts with these new clients.

General and administration expenses increased $435,343, or 62.8% from $693,060 during the three months ended September 30, 2023 to $1,128,403 during the three months ended September 30, 2024. The increase was mainly due to increased stock compensation expense by 354,900, increased professional service fee by $150,493 and increased meal and entertainment fee by $34,068, which was partly offset by decreased payroll expense by $10,818, decreased travel expense by $21,743, decreased rent expense by $23,872 and decreased amortization expense by $47,842.

We are treating human capital as a key indicator to drive business growth and technical innovation, also pursuing better integrated channels with related industries.

Non-Operating Income (Expenses), net

Non-operating income were $59,881 for the three months ended September 30, 2024, consisting mainly of interest income of $4,055 and other income of $55,826. Non-operating expenses were $7,758 for the three months ended September 30, 2023, consisting mainly of interest income of $106 and other expenses of $7,864.

Net (Income) Loss from Discontinued Operation

We generated net income from discontinued operation of $833,546 (which was the gain on disposal of Zhangxun) for the three months ended September 30, 2023.

Net Loss from continuing operation

We generated net loss from continuing operation of $1,961,989 and $855,602 for the three months ended September 30, 2024 and 2023, respectively, an $1,106,387 or 129.3% increase by comparing with the same period of 2023. The increase in net loss was mainly due to the increase in operating expenses which was partly offset by increased gross profit as explained above.

Accounts receivable

The operating revenue of the three months ended September 30, 2024 was $21,081,094, the balance of accounts receivable was $18,445 at September 30, 2024. In the same period last year, the operating revenue was $6,880,743, and the accounts receivable balance was $22,158 at September 30, 2023. This quarter, the Company further segmented the market, planned eight regional headquarters, strengthened the collection control, and promoted the fund collection of contracted delivery projects, which led to the benign return of funds and had a far-reaching impact on the future.

Liquidity and Capital Resources

Historically, we have funded our operations primarily through the sale of our common stock and shareholder loans. To enhance our ability to continue to operate as a going concern, we are dedicating resources to generate recurring revenues and sustainable operating cash flows.

We expect to generate revenues through expanding our current 5G AI multimodal digital business and acoustic intelligence business, and through continuous product innovation and development as well as various types of value-added services. In order to maintain working capital sufficient to support our operations and finance the future growth of our business, we expect to fund any cash flow shortfall through financial support from our majority stockholders (who are also our board members or officers) and public or private issuance of securities. However, such additional cash resources may not be available to us on desirable terms, or at all, if and when needed by us.

As of September 30, 2024, we had a working capital of $3,422,544 or a current ratio of 1.91:1, and our current assets were $6,950,373. As of June 30, 2024, we had a working capital deficit of $952,090 or a current ratio of 0.74:1. Our current assets were $2,647,892.

We expect the Company to continue to support its ongoing operations and financing through revenue growth and increased financing activities. However, there is no assurance that the Company will be able to secure such additional working capital on commercially viable terms or at all.

The following is a summary of cash provided by or used in each of the indicated types of activities during the three months ended September 30, 2024 and 2023, respectively.

	2024	2023
Net cash used in operating activities	$ (732,655)	$ (6,744,413)
Net cash used in investing activities	$ (47,520)	$ (365)
Net cash provided by financing activities	$ 1,490,992	$ 8,080,455

Cash Flow from Operating Activities

Net cash used in operating activities was $732,655 during the three months ended September 30, 2024, compared to net cash used in operating activities of $6,744,413 during the three months ended September 30, 2023, a decrease in cash outflow of $6,011,758.

The decrease in cash outflow was mainly due to 1) increased collection of accounts receivable by $722,820, 2) decreased cash outflow on prepaid expenses and other current assets by $5.31 million, 3) increased payment received from customers for unearned revenue by $1.29 million, and 4) decreased payment on lease liabilities by $68,540, despite we had increased cash outflow on accounts payable by $0.61 million, and net loss of $1.97 million with adjustment of non-cash stock compensation expense of $375,000 for the three months ended September 30, 2024, comparing with net loss of $31,988 with adjustment of non-cash income of gain on disposal of subsidiary of $0.83 million for the three months ended September 30, 2023.

Cash Flow from Investing Activities

Net cash used in investing activities totaled $47,520 for the three months ended September 30, 2024, which consisted of cash paid for the acquisition of office furniture and equipment of $2,752 and cash paid for acquisition of intangible assets by $44,768. Net cash used in investing activities totaled $365 for the three months ended September 30, 2023, which consisted of cash paid for the acquisition of office furniture and equipment of $330, and cash disposed due to disposal of subsidiary of $35.

Cash Flow from Financing Activities

Net cash provided by financing activities was $1,490,992 during the three months ended September 30, 2024, which was net proceeds from sale of our common stock through an equity financing of 1,958,751, which was partly offset by repayment of loan payables of $40,815 and repayment to related parties of $426,944. Net cash provided by financing activities was $8,080,455 during the three months ended September 30, 2023, which was the net proceeds from loans payable of $879,422, and net proceeds from sale of our common stock through an equity financing of $8,061,286, which was partly offset by repayment of loan payables of $184,425 and repayment to related parties by $675,828.

Loan from banks

On April 10, 2024, Guozhong Times entered a loan agreement with Bank of Beijing for the amount of RMB 500,000 ($70,158) with a term of 12 months with a preferential annual interest rate of 3.45% to be paid every 21^{st} of each month. For the three months ended September 30, 2024, the Company recorded and paid $619 interest expense for this loan. As of September 30, 2024, $71,353 was recorded as current liabilities.

On April 23, 2024, Guozhong Times entered a loan agreement with Beijing Rural Commercial Bank Economic and Technological Development Zone Branch for the amount of RMB 550,000 ($77,173) with a term of 12 months with the annual interest rate of 4.95% to be paid every 21^{st} of each month. For the three months ended September 30, 2024, the Company recorded and paid $978 interest expense for this loan. As of September 30, 2024, $78,488 was recorded as current liabilities.

On April 25, 2024, Shuhai Beijing entered a loan agreement with Industrial Bank Co., Ltd for the amount of RMB 2,000,000 ($280,631) with a term of 12 months with a preferential annual interest rate of 3.88% to be paid every 21st of each month. For the three months ended September 30, 2024, the Company recorded and paid $2,786 interest expense for this loan. As of September 30, 2024, $285,413 was recorded as current liabilities. Liu Fu is the guarantor of this loan agreement.

On May 28, 2024, Guozhong Times entered a loan agreement with China Everbright Bank for the amount of RMB 1,000,000 ($140,315) with a term of 12 months with the annual interest rate of 3.4% to be paid every 21st of each month. For the three months ended September 30, 2024, the Company recorded and paid $1,221 interest expense for this loan. As of September 30, 2024, $142,706 was recorded as current liabilities.

On June 20, 2024, Shuhai Beijing entered a loan agreement with Bank of China for the amount of RMB 4,000,000 ($561,262) with a term of 12 months with a preferential annual interest rate of 2.30% to be paid every 21st of the third months of each quarter. For the three months ended September 30, 2024, the Company recorded and paid $3,034 interest expense for this loan. As of September 30, 2024, $570,826 was recorded as current liabilities. Liu Fu is the guarantor of this loan agreement.

As of September 30, 2024, the total liabilities of Datasea are $3,660,370, which shows a 1.68% increase from June 30, 2024. The increase of liability is due to the increase of lease liability by $169,805, increase of unearned revenue by $1,263,078, increased accrued expense and other payables by $95,078 which was partly offset by decreased due to related party by $654,560, decreased outstanding of accounts payable by $791,501and decreased loan payable by $21,512.

Analysis of financial index

As of September 30, 2024 and June 30, 2024, the company's inventory was US $208,062 and US $153,583, an increase of US $54,479, or a growth rate of 35.47%, compared with the end of the previous fiscal year. The company has formed a certain production scale after continuous investment in acoustic intelligent products and independent research and development. And make use of the existing advantages and capabilities to open new markets to bring more revenue for the company to meet customer needs. Increasing inventory can ensure that the company has enough products or raw materials to meet customer order needs, avoid the situation of stock shortage, and thus improve customer satisfaction. Appropriately increasing inventories can help enterprises cope with sudden demand growth or price increases, reduce the risk of supply disruption, reduce the waiting time in the production process, make the production process smoother and improve production efficiency. By increasing the purchase volume of inventory, the company can obtain discounts and concessions for bulk purchases and reduce procurement costs. Increasing inventory can meet market demand in time to seize sales opportunities when promotion or peak season comes.

As of September 30, 2024 and June 30, 2024, the Company's cash balance was $937,606 and $181,262, respectively, an increase of $756,344 from the end of the prior fiscal year and an increase of 417.27% from the end of the prior fiscal year. Mainly due to the successful financing of the company in the quarter, by absorbing major shareholder investment and capital market funds, expanding the scale of the company, increasing investment in research and development, intellectual property rights and market expansion, strengthening the competitiveness of the company's brand, laying a solid foundation for the sustainable development of the company. The increase in sales revenue brought about by the increase in demand for products and services and a number of capital inflows brought about by the expansion of financing channels, the company has optimized its asset structure and enhanced its financial strength and liquidity.

As of September 30, 2024 and June 30, 2024, the Company's accounts receivable balance was $18,445 and $718,546, respectively, a decrease of $700,101 from the end of the prior fiscal year and 97.43% from the end of the prior fiscal year. The reduction in accounts receivable means that businesses are able to convert claims from credit sales into cash more quickly, which increases the speed and availability of funds. Enterprises can use funds more flexibly for production and operation, investment expansion or debt repayment, reducing the risk of capital shortage. A reduction in accounts receivable would make a company's balance sheet healthier. The increase of cash content in current assets and the decrease of accounts receivable will help improve financial indicators such as the current ratio and quick ratio of enterprises, and enhance the solvency and credit rating of enterprises. A reduction in accounts receivable can allow a company to reduce its need for external financing, thereby reducing interest expense and financing costs. The company strengthens the credit management of accounts receivable, so that external funds can return as soon as possible and maintain a good capital turnover.

As of September 30, 2024 and June 30, 2024, the Company's current assets were $7,181,924and $2,647,892, respectively. An increase of $4,534,032 from the end of the previous fiscal year, representing an increase of 171.23% from the end of the previous fiscal year. The increase of current assets enables the company to meet the repayment requirements of short-term debts more easily, reduces the financial risk of the enterprise, and enhances the confidence of creditors in the enterprise; Improve liquidity, help enterprises maintain operational flexibility, better adapt to changes in the market environment; Can guarantee the continuity of production and operation, promote sales growth; Enhance the anti-risk ability of enterprises, in the case of economic instability or market volatility, current assets can be used as a cushion for enterprises to maintain the normal operation of enterprises.

For the months ended September 30, 2024 and 2023, the Company's revenue was $21,081,094 and $6,880,743, respectively. An increase of $14,200,351 from the same period last year, an increase of 206.38% from the same period last year, and the revenue growth was mainly due to the rapid growth of 5G AI multimodal digital business. The company constantly excavates high-quality customers, maintains market share, and constantly expands new customers.

- Market share expansion: Through effective marketing strategies and high-quality product or service quality, the company gains an advantage in the competition and grabs more market share, resulting in an increase in operating income.

- Sales channel expansion: To develop new sales channels, which can increase the coverage of products or services, thereby increasing sales revenue.

Customer base expansion: The company successfully attracted more new customers while maintaining the loyalty of existing customers, resulting in an increase in the number of customers, which in turn drove revenue growth.

Favorable industry trend: The industry as a whole is in an upward trend and the market environment is good, which provides favorable conditions for the company's operating income growth.

Improve operational efficiency: Operational improvements such as optimizing production processes, reducing costs, improving product quality and speed of delivery help increase the company's competitiveness and sales.

- Improved macroeconomic environment: The overall economic situation is improving, consumer confidence is increasing, and business investment is increasing, which may drive demand for the company's products or services and promote operating income growth.

For the three months ended September 30, 2024 and 2023, the Company's gross profit was $196,981 and $74,735, respectively. Gross profit increased $122,246 from the same period last year, an increase of 163.57% from the same period last year, primarily due to the Company's significant increase in market share and significant increase in operating income. The increase in gross profit means that the company has great potential for development and operation.

- Improved shareholder returns: For shareholders, an increase in the gross profit of a business usually leads to an increase in net profit, which increases the dividend distribution and stock value for shareholders. This helps to increase shareholder confidence in the company and attract more investors.

- Consolidation of market position: Higher gross profit makes enterprises more competitive in the market, and can attract more customers through price advantages, product quality or service differentiation, expand market share, and further consolidate the market position of enterprises.

Innovation and R&D investment: The increase in gross profit provides companies with more funds for innovation and R&D activities. This helps enterprises to continuously launch new products, improve existing products and services, meet the changes in market demand, and maintain the technological leadership of enterprises and sustainable development capabilities.

As of September 30, 2024 and June 30, 2024, the Company's accounts received in advance balance was $1312,317 and $49,239, respectively, an increase of $1,263,078 from the end of the prior fiscal year and an increase of 2,565.2% from the end of the prior fiscal year. The benefits of increased advances include:

- Improve cash flow and enhance the financial stability of the enterprise.

- Reduce business risks to a certain extent. With a certain amount of financial security, the potential loss is reduced.

Forecasting demand: Advance collections can provide companies with information about market demand. By analyzing the situation of advance payment, enterprises can better understand the needs and purchase intentions of customers, so as to more accurately predict the market demand, rationally arrange production and sales plans, and improve the efficiency of resource utilization.

- Enhance market competitiveness: The ability to collect advance payments may indicate that the company's products or services have a certain attractiveness and market competitiveness. This can enhance the position of the enterprise in the market, attract more customers, and lay a good foundation for the development of the enterprise.

- Improve customer loyalty: For some customers, the willingness to pay in advance may be due to their high trust and satisfaction with the company's products or services. By offering the option of receiving money in advance, businesses can further strengthen their relationships with customers, increase customer loyalty and promote long-term cooperation.

- Cost of capital advantage: The advance payment can reduce the enterprise's need for external financing, thus reducing financing costs.

As of September 30, 2024 and June 30, 2024, the capital reserve balance was $45,268,415 and $38,957,780, respectively, an increase of $6,310,635 or 16.20% from the beginning of the fiscal year, primarily due to an increase in the Company's stock offerings. The increase in capital reserve means that the enterprise has obtained additional funds, which can improve the overall financial strength of the enterprise, so that the enterprise has more funds at its disposal during the operation process. With the increase of capital reserve, the capital adequacy ratio of enterprises has been improved, thus enhancing the financial stability and anti-risk ability of enterprises. The capital increase of major shareholders indicates that they are optimistic about the future prospects of the company, believe that the company has growth potential, and are willing to invest more funds to support the development of the company. Enhance the strength of the company: Capital increase can provide more funds for the company to expand the scale of production, research and development of new products, expand the market, improve the financial situation, etc., so as to enhance the competitiveness and profitability of the company. The capital increase of major shareholders can convey a signal of positive development of the company to the market and help enhance investors' confidence in the company. In the face of market volatility and uncertainty, enterprises can be more confident to cope with challenges. An increase in capital reserves also increases net asset value per share and is a positive financial indicator for shareholders. This is conducive to enhancing the investment confidence of shareholders and the market value of enterprises.

Going forward

Datasea Inc., as a leading global technology company and a practitioner of high-quality development in the acoustic intelligence industry, is committed to changing the world with sound, rediscovering sound, and constantly exploring innovation and development in the field of acoustic business and 5G applications. Looking ahead, we will continue to consolidate our leadership and leading position in the field of acoustic high-tech industry and 5G AI multimodal digitalization, and actively promote technological progress, product iteration and upgrade, and market expansion. The following are our future growth strategies and focus areas:

1. Innovation and Market Development in Acoustic High-Tech Business: Datasea will deepen its research in ultrasonic, infrasonic, and other non-audible mechanical wave technologies, continually optimizing acoustic algorithms to drive innovative applications of acoustic AI in agriculture, healthcare, and wellness. Beyond technical R&D and new product development, the company aims to expand its sales scale in China through multiple channels, including online e-commerce and live-streaming, to enhance market reach. In the U.S., Datasea will accelerate product promotion and market penetration by working closely with partners and channel distributors, delivering high-tech acoustic solutions to global clients and exploring new market opportunities.

2. Deepening 5G AI Multimodal Digital Business: Datasea will strengthen AI algorithm processing capabilities to improve the digital user experience, particularly in providing efficient, intelligent solutions for industries such as logistics, beauty, and rural revitalization, while continuously boosting revenue scale and gross margins.

3. Market Expansion and Layout: While consolidating its domestic market, Datasea will actively expand into international markets through strategic partnerships, targeting emerging markets in North America, Southeast Asia, and beyond, with core products designed to meet global customer needs.

4. Sustainable Development: Committed to green technology, Datasea aims to reduce its carbon footprint by enhancing energy efficiency and using eco-friendly materials, while also actively engaging in social welfare projects to promote corporate responsibility and social impact.

5. Talent and Organizational Development: The company will continue to attract globally minded talent, optimize management structures, and stimulate creativity through equity incentives, ensuring organizational vitality and competitive advantage.

6. Global M&A and Technology Collaboration: By leveraging mergers, acquisitions, and strategic partnerships, especially in the U.S. market, Datasea aims to integrate technology and market resources to deepen its acoustic intelligence footprint, achieving technical synergy and market expansion.

7. Intellectual Property and Brand Enhancement: Through patent protection of global technology innovations, Datasea will strengthen brand influence to secure its leading position in the global acoustic intelligence market, thereby increasing brand value.

8. International Risk Control Management: Datasea will establish a robust global risk control system through intelligent risk control and cross-border data compliance management, ensuring stable operations amid global expansion.

These initiatives underscore Datasea's commitment to internationalization, innovation, and digital development, driving sustained growth and industry leadership in the fields of acoustic intelligence and 5G digitalization. The company will continue to work with global clients and partners to create greater social value.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15 of the Securities Exchange Act of 1934, our principal executive officer and principal financial officer evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of the end of the period covered by this report, the Company's disclosure controls and procedures were not effective. This conclusion was reached in light of the following material weaknesses in internal control over financial reporting:

(i) inadequate segregation of duties and effective risk assessment;

(ii) lack of personnel adequately trained in U.S. GAAP; and

(iii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both U.S. GAAP and SEC guidelines.

Management's Strategies for Enhancing Internal Control:

In the previous fiscal year, we recognized the weaknesses in our internal control over financial reporting and have taken proactive steps to enhance and refine our internal control framework. These initiatives primarily include:

1. Continuous Improvement of Internal Control Procedures: We remain committed to refining our internal control processes, encompassing various aspects such as the budget approval process, procurement and asset management, credit control, internal audits, and cost accounting. Additionally, we have compiled a comprehensive internal control policy, incorporating guidelines for procurement control, inventory management, and fraud prevention.

2. Collaborative Oversight Mechanism: To strengthen internal control implementation, we have established a collaborative mechanism between the internal control department and the legal department. This mechanism involves conducting interviews with department heads, promptly addressing identified risk areas, and ensuring corrective actions are taken.

3. Engagement with Financing Underwriters: We have engaged financing underwriters to work closely with our international department to facilitate the company's financing efforts. This partnership aims to improve our understanding of investor backgrounds and identify financing methods that align best with our objectives.

4. Enhanced Collaboration with Legal Professionals: We are reinforcing collaboration between our internal and external legal teams to proactively mitigate risks.

In addition to these efforts, we have adopted various internal control policies, including the review of accounting personnel duties and responsibilities, travel allowances, reimbursement procedures, receivable management, asset control, internal audit processes, and cost accounting. Furthermore, we have established an internal audit department under the leadership of a director of internal audit, along with a legal team, to ensure compliance and effective risk management.

Further Enhancements Include:

5. Personnel Training: We are committed to training our staff to ensure the proper execution of internal control policies and procedures.

6. Regular Reporting to the Audit Committee: We will continue to provide quarterly summaries of internal control and audit reports to the Audit Committee.

7. Quarterly Review with U.S. CPA: Each quarter, we will conduct a trial balance review in collaboration with a U.S. Certified Public Accountant (CPA) after their review or audit.

Specifically we have also implemented the following practices to enhance Datasea featured internal control system:

1. Projects Pre-approval:

We have carried out project development at irregular intervals according to the needs of business development. Before the project is officially initiated, we have organized the setup of the project review group. The project review group has mainly reviewed the project's market development prospect report, project proposal, project report and other documentations that are prepared by the project development team. After communication and discussion by the review team, the project will be formally approved.

2. Significant Issues:

Significant issues will go through meetings of the President's Office. During those meetings, the Company's strategic adjustments of the business and major projects or events will be discussed. Only after the board meeting or the resolution of the board of directors, the decisions will be implemented in accordance with the meetings.

3. HR Management, Responsibility, Rewards and Penalties System:

We have strict control over talents and their efficiency, from the probation period to the conversion to regular employees. After the employees passing the strict evaluation, they will be included in the regular employees pool and sign the job responsibility letter and performance commitment letter. They will go through monthly performance assessment and evaluation as the basis for salary settlement. We will give rewards to employees with excellent performance from time to time, and the rewards are not limited to cash and stocks. We also gives certain penalty measures for employees' work mistakes, such as deduction of performance-based salary.

4. Budget Management:

The internal control department organizes all departments to participate in the full budget formulation and budget implementation, and comprehensively develop and implement the annual full budget data according to funds, assets, project initiation, business line revenue, and costs. The internal control center strictly controls the budget. The execution department, the finance department, the CEO and the chairman of the board jointly approve and execute the budget. In the process of budget implementation, we adopt the monthly rolling budget system, and the Group financial management internal control center makes statistical analysis of the implementation results to help each business unit complete the performance targets and strive to achieve the annual target of the Group company.

5. Operation Management:

We combine centralized and decentralized management styles according to the business line types and operating characteristics of each subsidiary of the group. We will give our subsidiaries certain management rights so that we will not miss any business opportunities. In terms of production and operation, from project initiation, procurement to sales, we have a complete control process. For example, before purchasing, we need to look around in the market and select high-quality suppliers after the audit of the group's financial management internal control center. We are willing to build long-term stable and friendly cooperation with high-quality suppliers. We will develop a complete process from the product check-in to check-out. After the approval of all parties, the procedure of product check-out will be completed to avoid risks.

6. Business Development Personnel Management:

For excellent business development personnel, we formulate relevant royalty management measures with comprehensive considerations about different lines of business, different products combined with different market conditions. We distribute salary and bonus according to performance. Business development personnel who successfully complete the sales target can get generous remuneration. These measures actively motivate business development personnel to complete the group's annual performance goals.

Changes in Internal Control over Financial Reporting

Other than as described above, there were no changes in our internal control over financial reporting during the quarter ending September 30, 2024 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any pending legal proceedings and no such proceedings are known to be contemplated.

ITEM 1A. RISK FACTORS

Not required of smaller reporting companies.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Shares Issued for Equity Financing

As of September 30, 2024, the Company issued 1,932,224 shares of the Company's common stock to three non-U.S investors including the Company's CEO and one of the directors, at price of $2.06 per share. The Company received the proceeds in full from this offering at October 15, 2024.

On July 2, 2024, the Company entered into a securities purchase agreement, pursuant to which the Company agreed to issue and sell to an investor in a registered direct offering 179,400 shares of the Company's common stock, at a price of $3.25 per share and pre-funded warrants to purchase up to 512,908 shares of Common Stock at a price of $3.24 per share with an exercise price of $0.01 per share (the "Pre-Funded Warrants"). The Pre-Funded Warrants are exercisable upon issuance and will remain exercisable until all the Pre-Funded Warrants are exercised in full. In connection with the Offering, on July 2, 2024, the Company entered into a placement agency agreement with EF Hutton LLC (the "Placement Agent"). Pursuant to the terms of the placement agency agreement, the Company will pay the placement agent a cash fee of 6.5% of the gross proceeds the Company receives in the offering at closing. The Company also agreed to reimburse the Placement Agent at the closing of the Offering, for expenses incurred, including disbursements of its legal counsel, in an amount not to exceed an aggregate of $75,000. The closing of the offering occurred on July 3, 2024. The Pre-Funded Warrants were exercised in full as of September 30, 2024. The gross proceeds of the Offering are approximately $2.25 million before deducting fees to the Company's placement agent and other offering expenses payable by the Company, for which was $0.29 million. The Company intends to use the net proceeds from the Offering for research and development, market development and for general corporate purposes.

Shares Issued for Acquiring Intangible Assets from Related Parties

On August 9, 2024, the Company entered into an intellectual property purchase agreement with Ms. Zhixin Liu, the Company's Chairwoman and CEO, pursuant to which Ms. Zhixin Liu transferred to the Company two intangible assets (software copyrights) owned by her personally. The Committee has decided to grant Zhixin Liu 398,925 restricted shares for the purchase of this software.

On August 9, 2024, the Company entered into an intellectual property purchase agreement with Mr. Fu Liu, the Company's director of board, pursuant to which Mr. Fu Liu transferred to the Company two intangible assets (software copyrights) owned by himself. The Committee has decided to grant Fu Liu 398,925 restricted shares for the purchase of this software.

Shares to Independent Directors as Compensation

During the three months ended September 30, 2024, the Company recorded $4,500 stock compensation expense to independent directors through the issuance of shares of the Company's common stock at the market price of the stock issuance date, pursuant to the 2018 Equity Incentive Plan.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

During the three months ended September 30, 2024, there were no modifications, adoptions or terminations by any directors or officers to any contract, instruction or written plan for the purchase or sale of securities of the Company that is intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or non-Rule 10b5-1 trading agreements.

ITEM 6. EXHIBITS.

Exhibit	Description
31.1	Certification by Principal Executive Officer pursuant to Sarbanes Oxley Section 302
31.2	Certification by Principal Financial Officer pursuant to Sarbanes Oxley Section 302
32.1*	Certification by Principal Executive Officer pursuant to 18 U.S.C. Section 1350
32.2*	Certification by Principal Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document XBRL
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* The certifications attached as Exhibits 32.1 and 32.2 accompany this quarterly report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATASEA INC.

Date: November 13, 2024

By: /s/ Zhixin Liu
Name: Zhixin Liu
Title: President
Chief Executive Officer
(principal executive officer)

Date: November 13, 2024

By: /s/ Mingzhou Sun
Name: Mingzhou Sun
Title: Chief Financial Officer
(principal financial officer and principal accounting officer)

Exhibit 31.1

CERTIFICATION OF CHIEF 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, Zhixin Liu, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Datasea 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 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(s) 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)) for the registrant and internal control 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 my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my 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; and

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report my 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 that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) 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 functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the 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 control over financial reporting.

Date: November 13, 2024

/s/ Zhixin Liu
Zhixin Liu
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF CHIEF FINANCIAL 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, Mingzhou Sun, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Datasea 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 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(s) 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)) for the registrant and internal control 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 my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my 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; and

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) 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 functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the 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 control over financial reporting.

Date: November 13, 2024

/s/ Mingzhou Sun
Mingzhou Sun
Chief Financial Officer
(Principal Financial Officer and Principal Accounting 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 Datasea Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2024 as filed with the Securities and Exchange Commission (the “Report”), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 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 operation of the Company.

Date: November 13, 2024

/s/ Zhixin Liu
Zhixin Liu
Chief Executive Officer and Chairman
(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 Datasea Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2024 as filed with the Securities and Exchange Commission (the “Report”), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 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 operation of the Company.

Date: November 13, 2024

/s/ Mingzhou Sun
Mingzhou Sun
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)