

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2019

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number 001-38170

NEWATER TECHNOLOGY, INC.

(Exact Name of registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

British Virgin Islands

(Jurisdiction of incorporation or organization)

c/o Yantai Jinzheng Eco-Technology Co., Ltd.

1 Ruida Road, Laishan District, Yantai City

Shandong Province

People's Republic of China 264003

(Address of principal executive offices)

Yuebiao Li

c/o Yantai Jinzheng Eco-Technology Co., Ltd.

1 Ruida Road, Laishan District, Yantai City

Shandong Province

People's Republic of China 264003

(+86) 535-8012911

Email: market@newater.cc

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

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

Title of each class

Name of Exchange on which registered

Common Shares, \$0.001 par value per share

The Nasdaq Capital Market

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **10,809,000 outstanding common shares**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

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

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued
By the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.
Item 17 Item 18

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

Yes No

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

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

Yes No

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Defined Terms and Conventions

Except where the context otherwise requires and for purposes of this annual report on Form 20-F only:

- The terms “we,” “us,” “Company” “our company,” and “our” refer to Newater Technology, Inc. and its wholly-owned subsidiaries;
- Newater Technology, Inc., a British Virgin Islands company (“Newater Technology” when referring solely to our British Virgin Islands listing company);
- Newater HK Limited, a Hong Kong company wholly-owned by Newater Technology (“Newater HK”);
- Yantai Jinzheng Eco-Technology Co., Ltd, a wholly-owned subsidiary of Newater HK (“Jinzheng”);
- Newater Technology America, Inc. a wholly owned subsidiary of Newater Technology, Inc. (“Newater America”);
- Jinda Eco-Technology (Hainan) Co., Ltd (“Jinda”), a wholly-owned subsidiary of Newater HK;
- Shaanxi Jinyu Zhengde Environmental Engineering Co., Ltd (“Jinyu”), a wholly-owned subsidiary of Jinzheng;
- Yantai Nuclear-Power R&D Center & Water Treatment Research Institute Co., Ltd (“Yantai Nuclear-Power”), a 70% owned subsidiary of Jinzheng;
- Yantai Jincai Eco-Technology Co., Ltd (“Jincai”), a 40% owned subsidiary of Jinzheng;
- Yantai Hengqingyuan Eco-Technology Co., Ltd (“Hengqingyuan”), a 20% owned subsidiary of Jinzheng;
- Yantai Jinzheng Eco-Technology Co., Ltd Xi'an Branch (Jinzheng-Xi'an);
- “shares” and “common shares” refer to our common shares, \$0.001 par value per share;
- “China” and “PRC” refer to the People’s Republic of China, excluding, for the purposes of this annual report only, Macau, Taiwan and Hong Kong; and
- all references to “RMB,” and “Renminbi” are to the legal currency of China, and all references to “USD,” and “U.S. Dollars” are to the legal currency of the United States.

We refer to Jinzheng by name in discussing the entity that conducts our day-to-day water filtration business in China and refer to “our company” when discussing our strategies, business plans, organization and other decision-making focused matters. Because we own Jinzheng by virtue of our ownership of Newater HK, we believe it would be misleading in most cases to discuss the business decisions of Jinzheng as though Jinzheng were at arm’s-length from our company.

For the sake of clarity, this annual report follows the English naming convention of first name followed by last name, regardless of whether an individual’s name is Chinese or English. For example, the name of our chief executive officer will be presented as “Yuebiao Li”, even though, in Chinese, his name would be presented as “Li Yuebiao”.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. All statements contained in this annual report other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the "Risk Factors" section. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this annual report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. We are under no duty to update any of these forward-looking statements after the date of this annual report or to conform these statements to actual results or revised expectations.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable for annual reports on Form 20-F.

Item 2. Offer Statistics and Expected Timetable

Not applicable for annual reports on Form 20-F.

Item 3. Key Information

A. Selected Financial Data.

In the table below, we provide the summary financial data of our company. The selected consolidated statements of income and comprehensive income data for the years ended December 31, 2019, 2018 and 2017, and the selected consolidated balance sheets data as of December 31, 2018 and 2017 are derived from our audited consolidated financial statements, which are included elsewhere in this annual report. The selected consolidated statement of income and comprehensive income data for the years ended December 31, 2015 and 2014 and the selected consolidated balance sheets data as of December 31, 2017, 2016 and 2015 are derived from our audited consolidated financial statements, which are not included in this annual report. Historical results are not necessarily indicative of the results that may be expected for any future period. When you read this historical selected financial data, it is important that you read it along with the historical statements and notes.

Selected Consolidated Statements of Income and Comprehensive Income Data

	For the years ended December 31,				
	2019	2018	2017	2016	2015
Net revenue	\$ 23,716,978	\$ 25,973,963	\$ 16,192,503	\$ 6,425,338	\$ 6,978,254
Net revenue from related parties	<u>13,857,014</u>	<u>21,066,741</u>	<u>9,146,994</u>	<u>5,854,383</u>	<u>-</u>
Subtotal of revenues	<u>37,573,992</u>	<u>47,040,704</u>	<u>25,339,497</u>	<u>12,279,721</u>	<u>6,978,254</u>
Cost of revenues	20,233,998	20,474,072	17,199,866	7,182,081	3,763,871
Cost of revenue from related parties	<u>1,450,627</u>	<u>5,669,252</u>	<u>-</u>	<u>556,692</u>	<u>-</u>
Subtotal of cost of revenues	<u>21,684,625</u>	<u>26,143,324</u>	<u>17,199,866</u>	<u>7,738,773</u>	<u>3,763,871</u>
Gross profit	15,889,367	20,897,380	8,139,631	4,540,948	3,214,383
Total operating expenses	<u>10,148,039</u>	<u>12,025,924</u>	<u>5,452,349</u>	<u>3,146,521</u>	<u>1,643,313</u>
Income from operations	5,741,328	8,871,456	2,687,282	1,394,427	1,571,070
Other expenses (income)					
Government grants	(946,164)	(627,748)	(513,538)	(1,750,726)	-
Interest income	(38,328)	(26,632)	(112,592)	(5,091)	(2,612)
Interest expenses	1,087,051	658,290	242,707	155,553	164,613
Investment loss	17,023	-	-	-	-
Other expenses (income)	<u>(153,546)</u>	<u>(1,162)</u>	<u>3,956</u>	<u>12,534</u>	<u>10,642</u>
Total other expense (income)	<u>(33,964)</u>	<u>2,748</u>	<u>(379,467)</u>	<u>(1,587,730)</u>	<u>172,643</u>
Income before provision for income taxes	5,775,292	8,868,708	3,066,749	2,982,157	1,398,427
Income tax provisions	1,463,745	1,657,279	475,818	548,437	452,850
Net income	\$ 4,311,547	\$ 7,211,429	\$ 2,590,931	\$ 2,433,720	\$ 945,577
Earnings (loss) per shares					
Basic	\$ 0.40	\$ 0.67	\$ 0.26	0.28	0.12
Diluted	\$ 0.40	\$ 0.67	\$ 0.26	0.28	0.10

Selected Balance Sheets Data

	As of December 31,				
	2019	2018	2017	2016	2015
Cash and cash equivalents	\$ 9,944,765	\$ 2,461,501	\$ 3,118,080	\$ 1,484,762	\$ 135,152
Total current assets	46,649,020	39,535,357	31,634,747	14,063,217	9,200,052
Total non-current assets	31,411,176	22,216,775	13,710,900	3,528,207	1,461,572
Total assets	78,060,196	61,752,132	45,345,647	17,591,424	10,661,624
Total current liabilities	45,305,700	30,258,610	24,343,309	6,838,202	6,877,885
Total non-current liabilities	1,777,385	4,449,889	11,050	-	30,808
Total liabilities	47,083,085	34,708,499	24,354,359	6,838,202	6,908,693
Total shareholders' equity	30,977,111	27,043,633	20,991,288	10,753,222	3,752,931
Total liabilities and shareholders' equity	\$ 78,060,196	\$ 61,752,132	\$ 45,345,647	\$ 17,591,424	\$ 10,661,624

Exchange Rate Information

Our business is conducted in China, and the financial records of Jinzheng are maintained in RMB, its functional currency. However, we use the U.S. dollar as our reporting currency; therefore, periodic reports made to shareholders will include current period amounts translated into U.S. dollars using the then-current exchange rates. Our financial statements have been translated into U.S. dollars in accordance with Accounting Standards Codification (“ASC”) 830-10, “Foreign Currency Matters.” We have translated our asset and liability accounts using the exchange rate in effect at the balance sheet date. We translated our statements of operations using the average exchange rate for the period. We reported the resulting translation adjustments under other comprehensive income (loss). The consolidated balance sheet amounts, with the exception of equity at December 31, 2019 and 2018 were translated at RMB 6.9668 and RMB 6.8764 to \$1.00, respectively. The equity accounts were stated at their historical rate. The average translation rates applied to consolidated statements of income and comprehensive income and cash flows for the years ended December 31, 2019, 2018 and 2017 were RMB 6.9072, RMB 6.6146 and RMB 6.7570 to \$1.00, respectively.

We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The Chinese government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade.

B. Capitalization and indebtedness.

Not applicable for annual reports on Form 20-F.

C. Reasons for Offer and use of Proceeds.

Not applicable for annual reports on Form 20-F.

D. Risk Factors.

Risks Related to Our Business

We are susceptible to general economic conditions, natural catastrophic events and public health crises, and a potential downturn in the membrane filtration market could adversely affect our operating results in the near future.

Our business is subject to the impact of natural catastrophic events, such as earthquakes, or floods, public health crisis, such as disease outbreaks, epidemics, or pandemics in China, and all these could result in a decrease or sharp downturn of economies, including our markets and business locations in the current and future periods. The outbreak of the coronavirus (COVID-19) pandemic (“COVID-19”) in China resulted in increased travel restrictions, and shutdown of businesses, which may cause slower recovery of the China economy. We may experience impact from quarantines, market downturns and changes in customer behavior related to pandemic fears and impact on our workforce if the virus continues to spread. COVID-19 could cause delays or the inability to deliver our products and services on a timely basis. In addition, one or more of our customers, partners, service providers or suppliers may experience financial distress, delayed or defaults on payment, file for bankruptcy protection, sharp diminishing of business, or suffer disruptions in their business due to the outbreak. The extent to which the coronavirus impacts our results will depend on future developments and reactions in China, which are highly uncertain and will include emerging information concerning the severity of the coronavirus and the actions taken by governments and private businesses to attempt to contain the coronavirus. It is likely to result in a potential material adverse impact on our business, results of operations and financial condition in the short run if the situation gets worse in China. Wider-spread COVID-19 in China and globally could prolong the deterioration in economic conditions and could cause decreases in or delays in spending and reduce and/or negatively impact our short-term ability to grow our revenues. Any decreased collectability of accounts receivable, bankruptcy of small and medium businesses, or early termination of agreements due to deterioration in economic conditions could negatively impact our results of operations.

Our limited operating history makes it difficult to evaluate our future prospects and results of operations, and we face certain risks and uncertainties as an early stage company, which, if we are unsuccessful in addressing such risks, could have a material adverse effect on our business.

Jinzheng was established in 2012. Newater Technology and Newater HK were established in 2015. As our operating history is not lengthy and the environment protection industry in China is still developing, it is difficult to evaluate our business and future prospects. We cannot assure that we will maintain our profitability or that we will not incur net losses in the future. Any failure to achieve targeted sales could result in our revenue growth to slow or even operating losses. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by developing companies in the evolving Chinese markets for water treatment. In addition, we face numerous risks, uncertainties, expenses and difficulties frequently encountered by companies at an early stage of development. We will continue to encounter risks and difficulties in implementing our business model, including potential failure to:

- increase our revenue and market share by targeting specific markets;
- expand our operations and business to other regions in China and internationally;
- attract additional customers and increase spending per customer;
- attract a wider client base;
- increase visibility of our brand and maintain customer loyalty;
- respond to competitive market conditions;

- anticipate and adapt to changing conditions in the markets in which we operate as well as changes in government regulations, mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics;
- manage risks associated with intellectual property rights;
- maintain effective control of our costs and expenses;
- raise sufficient capital to sustain and expand our business;
- attract, train, retain and motivate qualified personnel, continue to train, motivate and retain our existing employees, attract and integrate new employees, including into our senior management; and
- upgrade our technology to support additional research and development of new water treatment filtration products.

We cannot predict whether we will be successful in addressing any or all of these risks. If we were unsuccessful in addressing these risks and uncertainties, our business, financial condition and results of operation may be materially and adversely affected.

Wage increases in China may prevent us from sustaining our competitive advantage and could reduce our profit margins.

Labor costs in China have increased with China's economic development, including Yantai where our offices are based. Rising inflation in China is also putting pressure on wages. Wage costs for our employees form a significant part of our costs. For instance, in 2019, 2018 and 2017, our compensation and benefit costs for our employees were 4.2 million \$6.8 million and \$2.5 million, respectively. These amounts accounted for 11%, 14% and 10% of our total revenues for the years ended December 31, 2019, 2018 and 2017, respectively. In addition, we are required by Chinese laws and regulations to pay various statutory employee benefits, including pensions, housing funds, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated governmental agencies for the benefit of our employees. We expect that our labor costs, including wages and employee benefits, will continue to increase, particularly as we seek to remain competitive in retaining the quality and number of employees that our business requires. In addition, the future issuance of equity-based compensation to our professional staff and other employees would also result in additional stock dilution for our shareholders. Unless we are able to pass on these increased labor costs to our customers by increasing prices for our products, projects and services, our profitability and results of operations may be materially and adversely affected. Furthermore, the Chinese government has promulgated new laws and regulations to enhance labor protections in recent years, such as the Labor Contract Law and the Social Insurance Law. As the interpretation and implementation of these new laws and regulations are still evolving, our employment practice may not at all times be deemed in compliance with the new laws and regulations. If we are subject to penalties or incur significant liabilities in connection with labor disputes or investigation, our business and profitability may be adversely affected.

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

Our customers generally operate in the waste (garbage), chemical and energy industries. Therefore, we are subject to general changes in economic conditions impacting these industry segments of the economy. If these industries do not grow or if there is a contraction in these industries, demand for our business will decrease. Our revenue will also be affected by factors such as interest rates, environmental laws and regulations, private and public investment in infrastructure projects and health of the overall Chinese economy.

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

Revenues from our products, projects and service depend heavily on the availability of various raw materials. Raw materials may become unavailable from time to time, and their prices may fluctuate significantly. If our suppliers are unable or unwilling to provide us with raw materials, we may be unable to produce certain products, which could adversely impact our projects and services. This could result in a decrease in revenue, damage to our corporate reputation and even financial loss. In the event our raw material costs increase, we may not be able to pass these higher costs on to our customers in full or at all.

We rely on a limited number of suppliers, and the loss of any supplier could harm our business, and the loss of any significant supplier could have a material adverse effect on our business.

We have not entered into a long-term contract with our suppliers and instead rely on individual contracts. Although we believe that we can locate a replacement supplier readily on the market for prevailing prices, any difficulty in securing the replacement supplier could negatively affect our company's performance to the extent it results in higher prices or a slower supply chain.

Decline in sales to related parties may adversely impact our revenue, which could have a material adverse impact on our business.

In 2019, 37% of our sales revenues or \$13,857,014 was generated from related parties. In the event the related parties do not purchase our products to the same extent as in 2019 our revenues will likely decrease, and our business, financial condition and results of operation may be materially and adversely affected.

Collectability of our accounts receivable has adversely impacted our operating cash flow, and may continue to do so.

We reported cash flow provided by operations in the amounts of 13,291,596 for the year ended December 31, 2019 and cash flow used in operations in the amount of \$2,456,777 and \$3,189,701 for the years ended December 31, 2018 and 2017, respectively. Improvement in cash flow from operations in 2019, 2018 and 2017 was partly due to the increase in net income. As of December 31, 2019 and 2018, the balance of net accounts receivable from third parties were \$11,293,625 and \$10,064,847, respectively; and the net accounts receivable from related parties as of December 31, 2019 and 2018 were \$2,392,087 and \$1,948,009, respectively. If the accounts receivable cannot be collected on time, or at all, a significant amount of bad debt expense will occur, and our business, financial condition and results of operation may be materially and adversely affected.

We face substantial inventory risk, which if such risk is not addressed could have a material adverse effect on our business.

We typically acquire materials through a combination of purchase orders, supplier contracts and open orders, based on projected demand. As part of our business strategy, we order materials for our products, projects and services and build inventory in advance. This strategy has enabled us to complete customer orders in a short amount of time as compared to months of lead time for our competitors. This strategy has proven to be effective and given us the competitive advantage since certain customers require expedited order production and shipment.

Our inventory includes raw materials, work-in progress products and finished goods. As of December 31, 2019, our inventory was \$13,715,369. Inventory turnover for the year ended December 31, 2019 was 231 days. As our markets are competitive and subject to rapid technology and price changes, there is a risk that we will project demands incorrectly and order or produce incorrect amounts of inventories or not fully utilize our purchase commitments. If we fail to accurately project demands and build inventories, our business, financial condition and results of operation may be materially and adversely affected.

Any disruption in the supply chain of raw materials and our products could adversely impact our ability to produce and deliver products, which could have a material adverse effect on our business.

In order to optimize our production process, we must manage our supply chain for raw materials and delivery of our products. Supply chain fragmentation and local protectionism within China further complicates supply chain management. Local administrative bodies and physical infrastructure built to protect local interests may pose transportation challenges for raw material transportation as well as product delivery. In addition, government actions, legal enforcements, natural disasters, and other events could impact our supply chain. Any of these events could cause significant disruptions to our supply chain, production capacity and distribution. If we were unsuccessful in managing our supply chain, our business, financial condition and results of operation may be materially and adversely affected.

Based on our current operation results, we rely on our manufacturing inspection, quality testing and customer support teams, to keep repair and maintenance claims at a level that does not require a financial reserve. However, if we experience any significant increases in claims or customers refusing to pay the final 5-20% of the price due to product quality, our financial results could be adversely affected.

Our operations are subject to geographic market risks, which could adversely affect our revenues and profitability.

In 2019, approximately 59% of our revenues were realized from three geographic markets, with approximately 30%, 22%, and 7% of our revenues from clients located in the Beijing City, Shandong Province and Hainan Province, respectively. Accordingly, we are subject to risks related to the economies of these geographic markets. In addition, the geographic concentration of our primary clients suggests that region-specific legislations, taxation and natural disasters such as earthquakes could adversely affect us and our financial performance. A slowdown in wastewater treatment demand or economic growth in these regions could result in a material decline in our business, financial condition and results of operation.

We face certain risks in collecting our accounts receivable and we have a small number of customers who account for a significant amount of our revenues, the failure to collect could have a material adverse effect on our business.

With the recent expansion of our business, our accounts receivable has increased. At the end of 2019 and 2018, our net accounts receivable from both third parties and related parties were 13,685,712 and \$12,012,856, respectively. These amounts represented 36% of our total revenues in 2019 and 26% of our total revenues in 2018. In 2019, accounts receivable turnover was 125 days, and in 2018, it was 70 days.

Although we believe that we have developed a robust receivables management system and have not incurred a situation where an accounts receivable has become uncollectable, as our business continues to scale, we believe that our accounts receivable balance will continue to grow. This, in turn, increases our risks for bad debts and uncollectible receivables. To the extent we incur additional bad debts and/or uncollectible receivables, our business, financial condition and results of operation may be materially and adversely affected.

We have experienced rapid growth in recent periods. If we fail to manage our growth effectively, we may be unable to execute our business plan and address competitive challenges, which could have a material adverse effect on our business.

We increased our number of full-time employees from 75 at December 31, 2015, to 170 at December 31, 2019, and our total revenues from \$7 million in 2015, to \$38 million in 2019. This expansion has resulted, and will continue to result, in substantial demands on our managerial, administrative, operational, financial and other resources. Furthermore, we intend to grow by expanding our business reach, penetrating markets with our existing products, developing new products and expand our targeted markets such as industrial park wastewater treatment, municipality wastewater recycling, and seawater desalination. To cope with this growth, we must improve our existing administration, adopt new systems, enhance our financial oversight and management controls and further grow, train and manage our work force.

As we continue these efforts, we may incur substantial costs and expend substantial resources due to, among other things, different technology standards, legal considerations and cultural differences. We will be required to dedicate additional financial resources and personnel to optimize our operational infrastructure and to recruit more personnel to train and manage our growing employee base. If we cannot successfully implement these measures efficiently and cost-effectively, we will be unable to satisfy the demand for our products, projects and services, which will impair our revenue growth and hurt our overall financial performance.

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

We plan to grow by expanding our business reach, penetrating markets with our existing products, developing new products and grow our targeted markets such as industrial park wastewater treatment, municipality wastewater recycling, and seawater desalination. However, many risks to this plan exist, including results of marketing campaigns, competition from similar businesses, and results outcome of our research and development investments. We cannot, therefore, assure you that we will be able to successfully overcome such risks and grow our business as planned. Failure in our growth strategy may have a negative impact on our growth, future financial condition, and results of operations or cash flows.

If we fail to compete successfully against new and existing competitors, we may not be able to increase our market share, and our profitability may be adversely affected.

We do and will continue to face significant competition in China in the wastewater treatment business. Currently, our competitive advantages include our brand reputation, price, quick production and shipment time, and the range of our products and services. Our existing and potential competitors may have competitive advantages, such as financial resources, marketing campaigns or other resources. We cannot assure that we will be able to successfully compete with those competitors. If we fail to maintain our competitive advantages and respond to our competitors' actions, customers demand for our products, projects and services could decline.

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

We own 58 patents in China covering our wastewater treatment technology, and we rely on a combination of patent, computer software copyrights, trademark, domain names and trade secret laws and non-disclosure agreements and other methods to protect our intellectual property rights.

The process of seeking patent protection on future patents can be lengthy and expensive, our patent applications may be rejected, and our existing and future patents may be insufficient to provide us with sufficient protection or commercial advantage. Our patents and patent applications may also be challenged, invalidated or circumvented.

Implementation of Chinese intellectual property-related laws has historically been ineffective, primarily due to ambiguities in Chinese laws and enforcement difficulties. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as those in the United States or other developed countries. Furthermore, indemnifying unauthorized use of proprietary technology is difficult and expensive, and we may need to resort to litigation to enforce or defend our patents. Such litigations and its results could cause substantial costs and diversion of resources and management attention, which could harm our business and growth.

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

Our success depends, in a large part, on our ability to use and develop our technology and know-how without infringing third party intellectual property rights. With global expansion of our products, and increased amount of business activities we are exposed to a higher litigation risk for intellectual property infringement, invalidity and indemnification relating to other parties' proprietary rights. Our current or potential competitors, many of which have substantial resources and have made substantial investments in competing technologies, may have obtained or going to obtain patents that will prevent, limit or interfere with our products in either China or other countries. The defense of the potential suits, including patent infringement suits, and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. Furthermore, an adverse determination in any such litigation or proceedings to which we may become a party could cause us to:

- pay damages;
- seek licenses from third parties;
- pay ongoing royalties;
- redesign our existing products; or
- be restricted by injunctions.

Any of these events could prevent us from expanding to new markets, maintaining our current customer base and obtaining new customers, which could have a material adverse effect on our financial condition and results of operations.

Confidentiality agreements with employees and third parties may not prevent unauthorized disclosure of proprietary information and trade secrets.

In addition to patents, we rely on confidentiality agreements to protect our technical know-how and other proprietary information. Confidentiality agreements are used, for example, when we talk to potential clients, consultants, contractors and vendors. In addition, our scientists and each of our research and development and manufacturing employees have signed a confidentiality agreement. Nevertheless, there can be no guarantee that an employee or a third party will not make an unauthorized disclosure of our proprietary confidential information. This might happen intentionally or inadvertently. It is possible that a competitor will make use of such information, and that our competitive position will be compromised, in spite of any legal action we might take against persons making such unauthorized disclosures.

If we experience a significant disruption in, or a breach in security of, our information technology systems or if we fail to implement, manage or integrate new systems, software and technologies successfully, it could harm our business.

Our information technology (“IT”) systems are an integral part of our business. We depend on our IT systems to process transactions, manage logistics, keep financial records, prepare our financial reporting and operate other critical functions. Security breaches, cyber-attacks or other serious disruptions of our IT systems can create systemic disruptions, shutdowns or unauthorized disclosure of confidential information. If we are unable to prevent or adequately respond to such breaches, attacks or other disruptions, our operations could be adversely affected or we may suffer financial or reputational damage.

In addition, our ability to effectively implement our business plan in a rapidly evolving market requires effective planning, reporting and analytical processes and systems. We are improving and expect that we will need to continue to improve and further integrate our IT systems, reporting systems and operating procedures on an ongoing basis. If we fail to do so effectively, it could adversely affect our ability to achieve our objectives.

Product defects and unanticipated use or inadequate disclosure with respect to our products could adversely affect our business, reputation and financial performance.

Manufacturing or design defects (including in products or components that we source from third parties), unanticipated use of, or inadequate disclosure of risks relating to, the use of products that we make and sell may lead to personal injury, death or property damage. These events could lead to recalls or alerts relating to our products, result in the removal of a product from the market or result in product liability claims being brought against us. Product recalls, removals and liability claims can lead to significant costs, as well as negative publicity and damage to our reputation that could reduce demand for our products.

Our future growth depends on new products and new technology innovation, and failure to invent and innovate could adversely impact our business prospects.

Our future growth depends in part on maintaining our competitive advantage with current products in new and existing markets, as well as our ability to develop new products and technologies to serve such markets. To the extent that competitors develop competitive products and technologies, or new products or technologies that achieve higher customer satisfaction, our business prospects could be adversely impacted. In addition, regulatory approvals for new products or technologies may be required and these approvals may not be obtained in a timely or cost effective manner, adversely impacting our business prospects.

Changes in demand for our products and business relationships with key customers and suppliers may negatively affect operating results.

To achieve our objectives, we must develop and sell products that are subject to the demands of our customers. This is dependent on many factors, including managing and maintaining relationships with key customers, responding to the rapid pace of technological change and obsolescence, which may require increased investment by us or result in greater pressure to commercialize developments rapidly or at prices that may not fully recover the associated investment, and the effect on demand resulting from customers’ research and development, capital expenditure plans and capacity utilization. If we are unable to keep up with our customers’ demands, our sales, earnings and operating results may be negatively affected.

We may be unable to deliver our backlog on time, which could affect future sales and profitability and our relationships with customers.

Our ability to meet customer delivery schedules for backlog is dependent on a number of factors including sufficient manufacturing plant capacity, adequate supply channel access to raw materials and other inventory required for production, an adequately trained and capable workforce, project engineering expertise for certain large projects and appropriate planning and scheduling of manufacturing resources. Many of the contracts we enter into with our customers require long manufacturing lead times. Failure to deliver in accordance with customer expectations could subject us to contract cancellations and financial penalties, and may result in damage to existing customer relationships and could have a material adverse effect on our business, financial condition and results of operations.

We depend on our key personnel, and our business and growth prospects may be severely disrupted if we lose their services.

Our future success depends heavily upon the continued service of our key executives. In particular, we rely on the expertise and experience of Yuebiao Li, our founder, Chairman and Chief Executive Officer. We rely on his industry expertise and experience in our business operations, and in particular, his business vision, management skills, and working relationship with our employees, our other major shareholders, the regulatory authorities, and many of our clients. If he became unable or unwilling to continue in his present position, or if he joined a competitor or formed a competing company in violation of his employment agreement, we may not be able to replace him easily, our business may be significantly disrupted and our financial condition and results of operations may be materially adversely affected.

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

In addition, we compete for qualified personnel with other water treatment companies, and we face competition in attracting skilled personnel and retaining the members of our senior management team. These personnel possess technical and business capabilities, including expertise relevant to the water treatment market, which are difficult to replace. There is intense competition for experienced senior management with technical and industry expertise in the water treatment industry, and we may not be able to retain our key personnel. Intense competition for these personnel could cause our compensation costs to increase, which could have a material adverse effect on our results of operations. Our future success and ability to grow our business will depend in part on the continued service of these individuals and our ability to identify, hire and retain additional qualified personnel. If we are unable to attract and retain qualified employees, we may be unable to meet our business and financial goals.

Our senior management lacks experience in managing a public company and complying with laws applicable to operating as a U.S. public company domiciled in the British Virgin Islands and failure to comply with such obligations could have a material adverse effect on our business.

Prior to the completion of our initial public offering, Jinzheng operated as a private company located in China. In connection with our initial public offering, we formed Newater Technology in the British Virgin Islands, Newater HK Limited in Hong Kong and restructured Jinzheng a Newater subsidiary in China. In the process of taking these steps to prepare our company for the initial public offering, Jinzheng's senior management became the senior management of Newater Technology. None of Newater Technology's senior management has experience managing a public company or managing a British Virgin Islands company.

As a result of our initial public offering, our company became subject to laws, regulations and obligations that did not previously apply to it, and our senior management had no experience in complying with such laws, regulations and obligations. For example, Newater Technology needs to comply with the British Virgin Islands laws applicable to companies that are domiciled in that country. The senior management was only experienced in operating the business of Jinzheng in compliance with Chinese laws. Similarly, by virtue of our initial public offering, Newater Technology is required to file annual and current reports in compliance with U.S. securities and other laws. These obligations can be burdensome and complicated, and failure to comply with such obligations could have a material adverse effect on Newater. In addition, we expect that the process of learning about such new obligations as a public company in the United States will require our senior management to devote time and resources to such efforts that might otherwise be spent on the operation of our water treatment business.

We have limited business insurance coverage. Any future business liability, disruption or litigation we experience might divert management focus from our business and could significantly impact our financial results.

Availability of business insurance products and coverage in China is limited, and most such products are expensive in relation to the coverage offered. We have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurances on commercially reasonable terms make it impractical for us to maintain such insurances. As a result, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. Accordingly, a business disruption, litigation or natural disaster may result in substantial costs and divert management's attention from our business, which would have an adverse effect on our results of operations and financial condition.

We may require additional financing in the future and our operations could be curtailed if we are unable to obtain required additional financing when needed.

We may need to obtain additional debt or equity financing to fund future capital expenditures. Any additional equity financing may result in dilution to the holders of our outstanding shares of capital stock. Additional debt financing may impose affirmative and negative covenants that restrict our freedom to operate our business, including covenants that:

- limit our ability to pay dividends or require us to seek consent for the payment of dividends;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow to fund capital expenditures, working capital and other general corporate purposes; and
- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

We cannot guarantee that we will be able to obtain additional financing on terms that are acceptable to us, or any financing at all, and the failure to obtain sufficient financing could adversely affect our business operations.

Potential disruptions in the capital and credit markets may adversely affect our business, including the availability and cost of short-term funds for liquidity requirements, which could adversely affect our results of operations, cash flows and financial condition.

Potential changes in the global economy may affect the availability of business and consumer credit. We may need to rely on the credit markets, particularly for short-term borrowings from banks in China, as well as the capital markets, to meet our financial commitments and short-term liquidity needs if internal funds from our operations are not available to be allocated to such purposes. Disruptions in the credit and capital markets could adversely affect our ability to draw on such short-term bank facilities. Our access to funds under such credit facilities is dependent on the ability of the banks that are parties to those facilities to meet their funding commitments, which may be dependent on governmental economic policies in China. Those banks may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from us and other borrowers within a short period of time.

Long-term disruptions in the credit and capital markets could result from uncertainty, changing or increased regulations, reduced alternatives or failures of financial institutions could adversely affect our access to the liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. Such measures may include deferring capital expenditures, and reducing or eliminating discretionary uses of cash. These events would adversely impact our results of operations, cash flows and financial position.

We rely on short-term borrowings for our liquidity and we may not be able to continue to obtain financing on favorable terms, if at all.

Our liquidity relies significantly on short-term borrowings. For the years ended December 31, 2019, 2018 and 2017, cash provided by borrowings from third-parties was \$7,454,711, \$11,493,557 and \$8,805,683, respectively. Financing may not be available to us on favorable terms, if at all. If we are unable to obtain short-term financing in an amount sufficient to support our operations, it may be necessary, to suspend or curtail our operations, which would have a material adverse effect on our business and financial condition. In that event, current stockholders would likely experience a loss of most of or all of their investment.

Our bank accounts are not insured or protected against loss.

Jinzheng maintains cash accounts with various banks located in China. Such cash accounts are not insured or otherwise protected. Should any bank holding such cash deposits become insolvent, or if Jinzheng is otherwise unable to withdraw funds, Jinzheng would lose the cash on deposit with that particular bank.

Changes in China's environmental laws and policies may affect our financial condition.

Our products, projects and services are mainly used in the fields of municipal and industrial wastewater treatment and reuse, water purification and desalination. Our business is in line with China's current focus on environmental protection policies, specifically the Water Ten Plan and the 13th Five Year Plan (2016-2020). However, should China alter its environmental policies towards less regulation, we believe demand for our products will decrease, adversely impacting our results of operations, cash flows and financial position.

Risks Relating to Our Corporate Structure

We will likely not pay dividends in the foreseeable future.

We have not previously paid any cash dividends, and we do not anticipate paying any dividends on our common shares in the foreseeable future. Although we have achieved net profitability in 2019, we cannot assure that our operations will continue to result in sufficient revenues to enable us to operate at profitable levels or to generate positive cash flows from operating activities. Furthermore, there is no assurance that our Board of Directors will declare dividends even if we are profitable. Dividend policy is subject to the discretion of our Board of Directors and will depend on, among other things, our earnings, financial condition, capital requirements and other factors. If we determine to pay dividends on any of our common shares in the future, we will be dependent, in large part, on receipt of funds from Jinzheng for our cash needs, including the funds necessary to pay dividends and other cash distributions, if any, to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities organized in China is subject to limitations as described herein. Under British Virgin Islands law, we may only pay dividends from surplus (the excess, if any, at the time of the determination of the total assets of our Company over the sum of our liabilities, as shown in our books of account, plus our capital), and we must be solvent before and after the dividend payment in the sense that we will be able to satisfy our liabilities as they become due in the ordinary course of business; and the realizable value of assets of our Company will not be less than the sum of our total liabilities, other than deferred taxes as shown on our books of account, and our capital. If we determine to pay dividends on any of our common shares in the future, as a holding company, we will be dependent on receipt of funds from Jinzheng and Jinda. See "Dividend Policy."

Pursuant to the Chinese enterprise income tax law, dividends payable by a foreign investment entity to its foreign investors are subject to a withholding tax of 10%. Similarly, dividends payable by a foreign investment entity to its Hong Kong investor who owns 25% or more of the equity of the foreign investment entity is subject to a withholding tax of 5%.

The payment of dividends by entities organized in China is subject to limitations, procedures and formalities. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Our Chinese subsidiaries are also required to set aside at least 10% of its after-tax profit based on Chinese accounting standards each year to its compulsory reserves fund until the accumulative amount of such reserves reaches 50% of its registered capital.

The transfer to this reserve must be made before distribution of any dividend to shareholders. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into registered capital, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital. As of December 31, 2019 and 2018, the accumulated appropriations to statutory reserves amounted to \$2,267,219 and \$1,765,711, respectively.

Because we do not anticipate paying any cash dividends on our capital stock in the foreseeable future, capital appreciation, if any, will be your sole source of gain.

We have never declared or paid cash dividends. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. As a result, capital appreciation, if any, of our ordinary shares will be your sole source of gain for the foreseeable future.

Our business may be materially and adversely affected if any of our Chinese subsidiaries declare bankruptcy or become subject to a dissolution or liquidation proceeding.

The Enterprise Bankruptcy Law of China provides that an enterprise may be liquidated if the enterprise fails to settle its debts as and when they fall due and if the enterprise's assets are, or are demonstrably, insufficient to clear such debts.

Our Chinese subsidiaries hold certain assets that are important to our business operations. If any of our Chinese subsidiaries undergoes a voluntary or involuntary liquidation proceeding, unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

Our Chinese subsidiaries are required to allocate a portion of its after-tax profits, to the statutory reserve fund, and as determined by its board of directors, to the staff welfare and bonus funds, which may not be distributed to equity owners.

Pursuant to Company Law of P.R. China (2018 Revision), the Foreign Investment Law of the PRC and the Regulations for Implementation the Foreign Investment Law of the PRC, our Chinese subsidiaries are required to allocate a portion of its after-tax profits, to the statutory reserve fund, and in its discretion, to the staff welfare and bonus funds. No lower than 10% of an enterprise's after tax-profits should be allocated to the statutory reserve fund. When the statutory reserve fund account balance is equal to or greater than 50% of the registered capital, no further allocation to the statutory reserve fund account is required. Our Chinese subsidiaries can determine, in their own discretion, the amount contributed to the staff welfare and bonus funds. The staff welfare and bonus fund is used for the collective welfare of the staff of our Chinese subsidiaries. These reserves represent appropriations of retained earnings determined according to Chinese law.

As of the date of this annual report, the amounts of staff welfare and bonus funds have not yet been determined, and we have not committed to establishing such amounts at this time. Under current Chinese laws, our Chinese subsidiaries are required to set aside staff welfare and bonus funds amounts, but has not yet done so. Our Chinese subsidiaries have not done so because Chinese authorities grant companies flexibility in making a determination. Chinese law requires such a determination to be made in accordance with the company's organizational documents and our Chinese subsidiaries' organizational documents do not require the determination to be made within a particular timeframe. Although we have not yet been required by Chinese authorities to make such determinations or set aside such amounts, Chinese authorities may require us to rectify its noncompliance and we may be fined if we fail to do so after receiving a warning within its set time period.

Additionally, Chinese law provides that a Chinese company must allocate a portion of after-tax profits to the statutory reserve fund and the staff welfare and bonus funds reserve prior to the retention of profits or the distribution of profits to foreign invested companies. Therefore, if for any reason, the dividends from Jinzheng and Jinda cannot be repatriated to us or not in time, our cash flow may be adversely impacted or we may become insolvent.

Our failure to obtain prior approval of the China Securities Regulatory Commission (“CSRC”) for the listing and trading of our common shares on a foreign stock exchange could have a material adverse effect upon our business, operating results, reputation and trading price of our common shares.

On August 8, 2006, six Chinese regulatory agencies, including the Ministry of Commerce of the People’s Republic of China (“MOFCOM”), jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which was subsequently revised on June 22, 2009 (the New “M&A Rule”). The New M&A Rule contains provisions that require that an offshore special purpose vehicle (“SPV”) formed for overseas listing purposes and controlled directly or indirectly by Chinese companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange.

However, the application of the New M&A Rule remains unclear with no consensus currently existing among leading Chinese law firms regarding the scope and applicability of the CSRC approval requirement. Our Chinese counsel, GFE Law Firm, has given us the following advice, based on their understanding of current Chinese laws and regulations:

- At the time of our equity interest acquisition, as the acquiree, Jinzheng was not related to or connected with the acquirer, Newater HK. Accordingly, we did not need the approval from MOFCOM. In addition, we have received all relevant approvals and certificates required for the acquisition; and
- the CSRC approval under the New M&A Rule only applies to overseas listings of SPVs that have used their existing or newly issued equity interest to acquire existing or newly issued equity interest in Chinese domestic companies, or the SPV-domestic company share swap, due to the fact there has not been any SPV-domestic company share swap in our corporate history, Newater Technology does not constitute a SPV that is required to obtain approval from the CSRC for overseas listing under the New M&A Rule.
- In spite of the lack of clarity on this issue, the CSRC has not issued any definitive rule or interpretation regarding whether offerings like our initial public offering are subject to the New M&A Rule.

The CSRC has not issued any such definitive rule or interpretation, and we have not chosen to voluntarily request approval under the New M&A Rule. We did not obtain CSRC approval prior to our initial public offering. If prior CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other Chinese regulatory authorities. These authorities may impose fines and penalties upon our operations in China, limit our operating privileges in China, or take other actions that could have a material adverse effect upon our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our common shares.

Risks Related to Doing Business in China

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

China passed an Enterprise Income Tax Law (the “EIT Law”) and implementing rules, both of which became effective on January 1, 2008, and amended from time to time. Under the EIT Law, resident enterprises pay income tax at the rate of 25% for their worldwide income while non-resident enterprises pay 20% for their income generated from China. As far as the definition of resident enterprises, according to the EIT Law, an enterprise established outside of China with “de facto management bodies” within China is considered a “resident enterprise.” The implementing rules of the EIT Law define de facto management as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

On April 22, 2009, the State Administration of Taxation of China (the “SAT”) issued the Circular 82 Concerning Relevant Issues Regarding Cognizance of Chinese Investment Controlled Enterprises Incorporated Offshore as Resident Enterprises pursuant to Criteria of De Facto Management Bodies (“Circular 82”) further interpreting the application of the EIT Law and its implementation to offshore entities controlled by a Chinese enterprise or group. Pursuant to the Circular 82, an enterprise incorporated in an offshore jurisdiction and controlled by a Chinese enterprise or group will be classified as a “non-domestically incorporated resident enterprise” if (i) its senior management in charge of daily operations reside or perform their duties mainly in China; (ii) its financial or personnel decisions are made or approved by bodies or persons in China; (iii) its substantial assets and properties, accounting books, corporate stamps, board and stockholder minutes are kept in China; and (iv) at least half of its directors with voting rights or senior management are often resident in China. The SAT issued a Bulletin Concerning on the Administration Measures on Resident Enterprise Income Tax for Overseas Incorporated Enterprises Controlled by Chinese Enterprise or Enterprise Group on July 27, 2011 or Bulletin 45, which provides more guidance on the implementation of Circular 82. Bulletin 45 clarifies certain matters relating to resident status determination, post-determination administration, competent tax authorities, tax registration administration and tax reporting obligations. In addition, the SAT issued a Bulletin Concerning the Accreditation of Resident Enterprises Based on the Criteria of De Factor Management Bodies on January 29, 2014, or Bulletin 9, which further provides that, among other things, an entity that is classified as a “resident enterprise” in accordance with Circular 82 shall file the application for classifying its status of residential enterprise with the local tax authorities where its main domestic investors are registered. From the year in which the entity is determined to be a “resident enterprise,” any dividend, profit and other equity investment gain derives from other resident enterprises in China after January 1, 2008 shall be taxed in accordance with the EIT law and its implementing rules. A resident enterprise would have to pay a withholding tax at a rate of 10% when paying dividends to its non-PRC stockholders, however, as stipulated in the Arrangement between Mainland China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Tax Evasion on Income, if a PRC resident enterprise pays dividends to its Hong Kong shareholder which directly owns more than 25% of its equity interest, the withholding tax rate may be reduced to 5%, subject to certain requirements.

We believe that neither Newater Technology nor Newater HK meet all the conditions outlined in the preceding paragraph to be classified as a PRC “resident enterprise.” Newater Technology does not have a PRC enterprise or enterprise group as its primary controlling shareholder, and we are not aware of any offshore company with a corporate structure similar to the company that has been deemed a PRC “resident enterprise” by the PRC tax authorities. However, as the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body,” we cannot guarantee that the relevant authorities will not make a contrary conclusion to ours. If the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income. In our case, this would mean that income such as non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, tax reporting obligations would follow if we are deemed a resident enterprise. Finally, it is possible that future guidance issued with respect to the “resident enterprise” classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC stockholders and with respect to gains derived by our non-PRC stockholders from transferring our shares. In addition to the uncertainty in how the resident enterprise classification could apply, it is also possible that the rules may change in the future, possibly with retroactive effect. If we are required under the Enterprise Income Tax law to withhold PRC income tax on our dividends payable to our foreign shareholders, or if we are required to pay PRC income tax on the transfer of our shares under the circumstances mentioned above, the value of your investment in our shares or ADSs may be materially and adversely affected. It is unclear whether, if we are considered as a PRC resident enterprise, holders of our shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

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

In connection with our initial public offering, we became subject to the U.S. Foreign Corrupt Practices Act (“FCPA”), and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute for the purpose of obtaining or retaining business. We are also subject to the Anti-Unfair Competition Law of the PRC and the relevant anti-bribery provisions in the Criminal Law of the PRC, or together, the “PRC Anti-Bribery Laws.” The current PRC Anti-Bribery Laws prohibit the payment of bribes to government officials, private companies or individuals in a commercial transaction or their agents. We have operations, agreements with third parties, and make sales in China, which may experience corruption. Our activities in China create the risk of unauthorized payments or offers of payments by one of the employees, consultants or distributors of our company, because these parties are not always subject to our control. We are in process of implementing an anticorruption program, which prohibits the offering or giving of anything of value to foreign officials, directly or indirectly, for the purpose of obtaining or retaining business. The anticorruption program also requires that clauses mandating compliance with our policy be included in all contracts with foreign sales agents, sales consultants and distributors and that they certify their compliance with our policy annually. It further requires all hospitality involving promotion of sales to foreign governments and government-owned or controlled entities to be in accordance with specified guidelines. In the meantime, we believe to date we have complied in all material respects with the provisions of the FCPA and the PRC Anti-Bribery Laws.

However, our existing safeguards and any future improvements may prove to be less than effective, and the employees, consultants or distributors of our Company may engage in conduct for which we might be held responsible. Violations of the FCPA or PRC Anti-Bribery Laws may result in severe criminal or administrative sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the government may seek to hold our Company liable for successor liability FCPA violations committed by companies in which we invest or that we acquire.

Our subsidiaries' financial statements are prepared under different accounting standards than our consolidated financial statements.

We prepare the financial statements for each of our subsidiaries that are PRC legal entities in accordance with the requirements of generally accepted accounting principles in China, or PRC GAAP. These financial statements drive how we calculate the taxes payable for operations of these subsidiaries. By contrast, we prepare the consolidated financial statements for Newater Technology in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The process of consolidating the financial statements and changing from PRC GAAP to U.S. GAAP requires us to make certain adjustments on consolidation. This can result in some discrepancies between the financial statements used to prepare our tax filings in China and the financial statements audited by our independent registered accounting firm and subsequently filed with the SEC. To the extent the discrepancies between PRC GAAP and U.S. GAAP are material, we could find, for example, that a PRC subsidiary shows taxable income for which payment of taxes is due, while our U.S. GAAP-audited financial statements show taxable loss.

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

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

We are dependent on the state of China's economy as all of our business is conducted in China and a decline would have a material adverse effect on our business, financial condition and results of operations.

Currently, all of our business operations are conducted in China, and all of our customers are also located in China. Accordingly, any material slowdown in the China's economy may cause our customers to reduce expenditures or delay the building of new facilities or projects. This may in turn lead to a decline in the demand for the products, projects and services we provide. Any such decline would have a material adverse effect on our business, financial condition and results of operations.

Since our operations and assets are located in China, shareholders may find it difficult to enforce a U.S. judgment against the assets of our Company, our directors and executive officers.

Our operations and assets are located in China. In addition, our executive officers and directors are non-residents of the U.S., and substantially all the assets of such persons are located outside the U.S. As a result, it could be difficult for investors to effect service of process in the U.S., or to enforce a judgment obtained in the U.S. against us or any of these persons. See “Enforceability of Civil Liabilities.”

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management named in the prospectus based on foreign laws.

We are a company incorporated under the laws of the British Virgin Islands, we conduct all of our operations in China, and all of our assets are located in China. In addition, all our senior executive officers reside within China and are PRC nationals. As a result, it may be difficult for our shareholders to effect service of process upon us or those persons inside China. In addition, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the British Virgin Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Shareholder claims that are common in the United States, including securities law class actions and fraud claims, generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to obtaining information needed for shareholder investigations or litigation outside China or otherwise with respect to foreign entities. Although the local authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such regulatory cooperation with the securities regulatory authorities in the United States have not been efficient in the absence of mutual and practical cooperation mechanism. According to Article 177 of the PRC Securities Law which became effective in March 2020, a foreign securities regulatory authority is not allowed to conduct an official investigation and/or collect evidence directly within the territory of the PRC, and that Chinese entities and individuals are not allowed to provide documents or materials related to securities business activities to foreign agencies without prior consent from the securities regulatory authority of the PRC State Council and the competent departments of the PRC State Council. Accordingly, in circumstances relating to a direct investigation or collection of evidence conducted by foreign authorities within the territory of the PRC, the foregoing activities are required to be conducted through collaboration with or by obtaining prior consent from Chinese authorities.

Although we do not import goods into or export goods out of China, fluctuation of the RMB may indirectly affect our financial condition by affecting the volume of cross-border money flow.

Although we use the United States dollar for financial reporting purposes, all of the transactions effected by our Chinese subsidiaries are denominated in China’s currency, the RMB. The value of the RMB fluctuates and is subject to changes in China’s political and economic conditions. We do not currently engage in hedging activities to protect against foreign currency risks. Even if we choose to engage in such hedging activities, we may not be able to do so effectively. Future movements in the exchange rate of the RMB could adversely affect our financial condition as we may suffer financial losses when transferring money raised outside of China into the country or paying vendors for services performed outside of China.

If any dividend is declared in the future and paid in a foreign currency, you may be taxed on a larger amount in U.S. dollars than the U.S. dollar amount that you will actually ultimately receive.

In the event we pay dividends in the future, you will be taxed on the U.S. dollar value of your dividends, if any, at the time you receive them, even if you actually receive a smaller amount of U.S. dollars when the payment is in fact converted into U.S. dollars. Specifically, if a dividend is declared and paid in a foreign currency, the amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the payments made in the foreign currency, determined at the spot rate of the foreign currency to the U.S. dollar on the date the dividend distribution is includable in your income, regardless of whether the payment is in fact converted into U.S. dollars. Thus, if the value of the foreign currency decreases before you actually convert the currency into U.S. dollars, you may be taxed on a larger amount in U.S. dollars than the U.S. dollar amount that you will actually ultimately receive.

We may become a passive foreign investment company, which could result in adverse U.S. tax consequences to U.S. investors.

Based on the nature of our business activities, we may be classified as a passive foreign investment company (“PFIC”), by the U.S. Internal Revenue Service (“IRS”), for U.S. federal income tax purposes. Such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we are a PFIC, a U.S. investor will become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, we will be classified as a PFIC for U.S. tax purposes if either:

- 75% or more of our gross income in a taxable year is passive income; or
- the average percentage of our assets by value in a taxable year that produce or are held for the production of passive income (which includes cash) is at least 50%.

The calculation of the value of our assets is based, in part, on the then market value of our common shares, which is subject to change. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raised in our initial public offering. We cannot assure that we will not be a PFIC for any taxable year. See “Taxation – United States Federal Income Taxation-Passive Foreign Investment Company.”

Introduction of new laws or changes to existing laws by the Chinese government may adversely affect our business.

The Chinese legal system is a codified legal system made up of written laws, regulations, circulars, administrative directives and internal guidelines. Unlike common law jurisdictions such as the U.S., decided cases (which may be taken as reference) do not form part of the legal structure of China and thus have no binding effect. Furthermore, in line with its transformation from a centrally planned economy to a more market-oriented economy, the Chinese government is still in the process of developing a comprehensive set of laws and regulations. As the legal system in China is still evolving, laws and regulations or their interpretation may be subject to further changes. Such uncertainty and prospective changes to the Chinese legal system could adversely affect our results of operations and financial condition.

We may be subject to foreign exchange controls in China, which could limit our use of funds raised in our initial public offering, which could have a material adverse effect on our business.

We are subject to Chinese rules and regulations on currency conversion. In China, SAFE regulates the conversion of the RMB into foreign currencies. As foreign invested enterprise in China, such as our WOFE – Jinzheng and Jinda, are allowed to open foreign currency accounts including the “current account” and the “capital account”. Currently, conversion within the scope of the “current account” and general “capital account” can be effected without requiring the approval of SAFE. However, conversion of currency in some restricted “capital account” (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE.

In particular, if Jinzheng or Jinda borrows foreign currency through loans from Newwater Technology or other foreign lenders, these loans must be registered with SAFE or its local counterparts. If they are financed by means of additional capital contributions, we will be subject to reporting obligations as stipulated by relevant Chinese laws and regulations, and such changes in registered capital also shall be registered with local authorities, additional approval may be needed, as the case may be. These restrictions could limit our use of funds raised in our initial public offering which could have an adverse effect on our business.

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

The Chinese government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China, which may take as long as six months in the ordinary course. We receive the majority of our revenues in Renminbi. Under our current corporate structure, our income is derived from payments from our Chinese subsidiaries. Shortages in the availability of foreign currency may restrict the ability of Jinzheng and Jinda to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing Chinese foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The Chinese government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders. See “Our Business – Regulations on Foreign Currency Exchange and Dividend Distribution.”

Fluctuation of the Renminbi could materially affect our financial condition and results of operations.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. On July 21, 2005, the Chinese government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an appreciation of the Renminbi against the U.S. dollar. While the international reaction to the Renminbi revaluation has generally been positive, there remains international pressure on the Chinese government to adopt an even more flexible currency policy, which could result in a further and more rapid appreciation of the Renminbi against the U.S. dollar. Any material revaluation of Renminbi may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our common shares in U.S. dollars. For example, an appreciation of Renminbi against the U.S. dollar would make any new Renminbi denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into Renminbi for such purposes. See “Exchange Rate Information.”

Recent changes in China's labor law restrict our ability to reduce our workforce in China in the event of an economic downturn and may increase our production costs which could have a material adverse effect on our business.

To clarify certain details in connection with the implementation of the Labor Contract Law, the China State Council promulgated the Implementing Rules for the Labor Contract Law on September 18, 2008, which came into effect immediately. The legislation formalized workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. Among other things, this new law provides for specific standards and procedures for the termination of an employment contract and places the burden of proof on the employer. In addition, the law requires the payment of a statutory severance pay upon the termination of an employment contract in most cases, including the case of the expiration of a fixed-term employment contract. Further, the law requires an employer to conclude an "employment contract without a fixed-term" with any employee who either has worked for the same employer for 10 consecutive years or more or has had two consecutive fixed-term contracts with the same employer. An "employment contract without a fixed term" can no longer be terminated on the ground of the expiration of the contract, although it can still be terminated pursuant to the standards and procedures set forth under the new law. Because of the lack of precedent for the enforcement of such a law, the standards and procedures set forth under the law in relation to the termination of an employment contract have raised concerns among foreign investment enterprises in China that such an "employment contract without a fixed term" might in fact become a "lifetime, permanent employment contract." Finally, under the new law, downsizing of either more than 20 people or more than 10% of the workforce may occur only under specified circumstances, such as a restructuring undertaken pursuant to China's Enterprise Bankruptcy Law, or where a company suffers serious difficulties in production and/or business operations, or where there has been a material change in the objective economic circumstances relied upon by the parties at the time of the conclusion of the employment contract, thereby making the performance of such employment contract not possible. To date, there has been very little guidance or precedent as to how such specified circumstances for downsizing will be interpreted and enforced by the relevant Chinese authorities. All of our employees working for us exclusively within China are covered by the new law and thus, our ability to adjust the size of our operations when necessary in periods of recession or less severe economic downturns may be curtailed. Accordingly, if we face future periods of decline in business activity generally or adverse economic periods specific to our business, this new law can be expected to exacerbate the adverse effect of the economic environment on our results of operations and financial condition.

Our business benefits from certain government subsidies and incentives. Expiration, reduction or discontinuation of, or changes to, these incentives will increase our burden and reduce our net income which could have a material adverse effect on our business and operations.

Jinzheng received the following subsidies in 2017:

- RMB 300,000 as Jinzheng successfully applied for the subsidy of innovation-driven development ("RMB 300K Subsidy").
- RMB 2,594,000 as Jinzheng successfully applied for the subsidy of special membrane project ("RMB 2.6M Subsidy").
- RMB 200,000 as Jinzheng was chosen as one of the Provincial Industrial Design Centers in Shandong Province.
- RMB 100,000 as Jinzheng was chosen as the City DTRO Membrane Engineering Lab of Yantai City in Shandong Province.
- RMB 95,975 as Jinzheng successfully applied for the subsidy on interest expense incurred by the Company for loans obtained.

The requirements of the above subsidies totaling RMB 3,289,975 received in 2017 were fully fulfilled and the subsidies were recognized as government grant in consolidated statements of income and comprehensive income for the year ended December 31, 2017.

Jinzheng received the following subsidies in 2018:

- RMB 3,300,000 as Jinzheng successfully applied for the subsidy of research and development (“RMB 3.3M Subsidy”).
- RMB 200,000 as Jinzheng’s research and development plan was chosen as one of the annual key plans of Shandong Province. (“RMB 200K Subsidy”)
- RMB 600,000 as Jinzheng successfully applied for the subsidy from local government of being listed in Nasdaq Security Market. (“RMB 600K Subsidy”)

Jinzheng received the following subsidies in 2019:

- RMB 1,502,500 as Jinzheng successfully applied for the subsidy for its DTRO fully-automatic production line technical innovation project;
- RMB 3,217,500 as Jinzheng successfully applied for the subsidy of research and development;
- RMB 108,000 subsidy for Jinzheng’s financial innovation and development;
- RMB 900,000 subsidy for Jinzheng’s manufacture and industrialization of its strong-acid resistant nanofiltration membrane;
- RMB 136,200 as Jinzheng successfully applied for the subsidy of research and development of Yantai City;
- RMB 454,000 as Jinzheng successfully applied for the subsidy of research and development of Shandong Province;
- RMB 300,000 as Jinzheng successfully applied for the subsidy for its landscaping project;
- RMB 4,000 as Jinzheng successfully applied for the subsidy for its investigation on marine economy industry;
- RMB 33,744 as Jinzheng successfully applied for the subsidy of employment stabilization;
- RMB 479,400 as Jinzheng successfully applied for the subsidy of research and development.

For the years ended December 31, 2019, 2018 and 2017, the Company recognized government grants of approximately \$946,000 (RMB 6,535,344), \$628,000 (RMB 4,100,000) and \$514,000 (RMB 3,469,975) in the consolidated statements of income and comprehensive income, respectively.

In addition, Jinzheng obtained the Hi-Tech Enterprise certificate and is entitled to a preferential income tax rate of 15% for 2019, 2018 and 2017. The 15% tax rate is less than the standard 25% income tax rate in China. The local Chinese government authorities may reduce or eliminate these incentives through new legislation at any time in the future. In the event Jinzheng is no longer exempt from lowered income taxation, its applicable tax rate would increase from 15% to up to 25%, the standard business income tax rate in China. In addition, the termination of one-time subsidies for water treatment equipment business development could increase the burden of manufacturing and selling water treatment equipment in the future. The reduction or discontinuation of any of these economic incentives could negatively affect our business and operations.

Labor laws in China may adversely affect our results of operations.

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

Chinese regulations relating to the establishment of offshore special purpose companies by Chinese residents may subject our Chinese resident shareholders to personal liability and limit our ability to inject capital into our Chinese subsidiaries, limit our subsidiaries' ability to increase its registered capital, distribute profits to us, or otherwise adversely affect us.

On July 4, 2014, China's SAFE issued the Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles, or Circular 37, which became effective as of July 4, 2014. According to Circular 37, prior registration with the local SAFE branch is required for Chinese residents to contribute domestic assets or interests to offshore companies, known as SPVs. An amendment to registration or filing with the local SAFE branch by such Chinese resident is also required if the registered overseas SPV's basic information such as domestic individual resident shareholder, name, operating period, or major events such as domestic individual resident capital increase, capital reduction, share transfer or exchange, merger or division has changed. Failure to comply with the registration procedures set forth in Circular 37 may result in receiving a warning from SAFE and its branches, and may result in a fine of up to RMB 300,000 for an organization or up to RMB 50,000 for an individual. In the event of failing to register, if capital outflow occurred, a fine up to 30% of the illegal amount may be assessed.

Moreover, on February 13, 2015, the SAFE issued the Circular on Further Simplifying and Improving Policies for Foreign Exchange Administration on Direct Investment, which became effective on June 1, 2015, or the Circular 13. Pursuant to which, the SAFE assigned its foreign exchange registration for both domestic and overseas direct investment business to licensed Chinese banks. Chinese residents who are required to go through foreign exchange registrations under Circular 37 can register with qualified banks rather than the SAFE and its local counterparts.

Chinese residents who control our Company are required to register with qualified banks in connection with their investments in us. We have requested our shareholders who are Chinese residents to make the necessary applications, filings and amendments as required under Circular 37, Circular 13 and other related rules. We attempt to comply and attempt to ensure that our shareholders who are subject to these rules comply, with the relevant requirements. However, we cannot provide any assurances that all of our shareholders who are Chinese residents will comply with our request to make or obtain any applicable registrations or comply with other requirements required by Circular 37, Circular 13 or other related rules. The failure or inability of our Chinese resident shareholders to make any required registrations or comply with other requirements may subject such shareholders to fines and legal sanctions and may also limit our ability to contribute additional capital into or provide loans to (including using the proceeds from our initial public offering) our Chinese subsidiaries, limiting their ability to pay dividends or otherwise distributing profits to us.

Failure to comply with the Individual Foreign Exchange Rules relating to the overseas direct investment or the engagement in the issuance or trading of securities overseas by our Chinese resident stockholders may subject such stockholders to fines or other liabilities.

Other than Circular 37, our ability to conduct foreign exchange activities in China may be subject to the interpretation and enforcement of the Administrative Measures for Individual Foreign Exchange and its implementation rules, which promulgated by the People's Bank of China and the SAFE in December 2006 and January 2007, respectively (as amended and supplemented, the "Individual Foreign Exchange Rules"). Under the Individual Foreign Exchange Rules, any Chinese individual seeking to make a direct investment overseas or providing loans overseas or engage in the trading of commodity futures or financial derivatives overseas must make the appropriate registrations in accordance with SAFE provisions. Chinese individuals who fail to make such registrations may be subject to warnings, fines or other liabilities.

We may not be fully informed of the identities of all our beneficial owners who are Chinese residents. For example, because the investment in or trading of our shares will happen in an overseas public or secondary market where shares are often held with brokers in brokerage accounts, it is unlikely that we will know the identity of all of our beneficial owners who are Chinese residents. Furthermore, we have no control over any of our future beneficial owners and we cannot assure you that such Chinese residents will be able to complete the necessary approval and registration procedures required by the Individual Foreign Exchange Rules.

It is uncertain how the Individual Foreign Exchange Rules will be interpreted or enforced and whether such interpretation or enforcement will affect our ability to conduct foreign exchange transactions. Because of this uncertainty, we cannot be sure whether the failure by any of our Chinese resident stockholders to make the required registration will subject our subsidiaries to fines or legal sanctions on their operations, restriction on remittance of dividends or other punitive actions that would have a material adverse effect on our business, results of operations and financial condition.

Changes in China's political and economic policies could harm our business.

Substantially all of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

The Chinese economy has historically been a planned economy subject to governmental plans and quotas and has, in certain aspects, been transitioning to a more market-oriented economy. Although we believe that the economic reform and the macroeconomic measures adopted by the Chinese government have had a positive effect on the economic development China, we cannot predict the future direction of these economic reforms or the effects these measures may have on our business, financial position or results of operations. In addition, the Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development ("OECD"). These differences include, without limitation:

- economic structure;
- level of government involvement in the economy;
- level of development;
- level of capital reinvestment;
- control of foreign exchange;
- methods of allocating resources; and
- balance of payments position.

As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries. See "Our Business – Industry and Market Background."

Since 1979, the Chinese government has promulgated many new laws and regulations covering general economic matters. Despite these efforts to develop a legal system, China's system of laws is not yet complete. Even where adequate law exists in China, enforcement of existing laws or contracts based on existing law may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The relative inexperience of China's judiciary, in many cases, creates additional uncertainty as to the outcome of any lawsuit. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Our activities in China will also be subject to administration review and approval by various national and local agencies of the Chinese government. Because of the changes occurring in China's legal and regulatory structure, we may not be able to secure the requisite governmental approval for our activities. Although we have obtained all required governmental approvals to operate our business as currently conducted, to the extent we are unable to obtain or maintain required governmental approvals, the Chinese government may, in its sole discretion, prohibit us from conducting our business.

If relations between the United States and China worsen, our share price may decrease and we may have difficulty accessing U.S. capital markets.

At various times during recent years, the United States and China have had disagreements over political and economic issues. Controversies may arise in the future between these two countries. Any political or trade controversy between the United States and China could adversely affect the market price of our common shares and our ability to access U.S. capital markets.

The Chinese government could change its policies toward private enterprise or even nationalize or expropriate private enterprises, which could result in the total loss of our investment in that country.

Our business is subject to political and economic uncertainties and may be adversely affected by political, economic and social developments in China. Over the past several years, the Chinese government has pursued economic reform policies including the encouragement of private economic activity and greater economic decentralization. The Chinese government may not continue to pursue these policies or may alter them to our detriment from time to time with little, if any, prior notice.

Changes in policies, laws and regulations or in their interpretation or the imposition of confiscatory taxation, restrictions on currency conversion, restrictions or prohibitions on dividend payments to shareholders, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business. Nationalization or expropriation could even result in the total loss of our investment in China and in the total loss of any investment in us.

Because our operations are located in China, information about our operations is not readily available from independent third-party sources.

Because our Chinese subsidiaries are based in China, our shareholders may have greater difficulty in obtaining information about them on a timely basis than would shareholders of a U.S.-based company. Its operations will continue to be conducted in China and shareholders may have difficulty in obtaining information about them from sources other than the company itself. Information available from newspapers, trade journals, or local, regional or national regulatory agencies such as issuance of construction permits and contract awards for development projects will not be readily available to shareholders and, where available, will likely be available only in Chinese. Shareholders will be dependent upon management for reports of their progress, development, activities and expenditure of proceeds.

Chinese economic growth slowdown may cause negative effect to our business.

Since 2010, the annual growth rate of the Chinese economy has declined, from approximately 11% gross domestic product in 2010 to 6.1% in 2019. This situation has impacted many types of service industries, such as restaurant and tourism, and some manufacturing industries. Our business operations in China rely primarily on the waste (garbage), chemical and energy industries that are less influenced by economic growth slowdown than service industries. However, if China's economic growth continues to slow down, then our business could be adversely affected if slow expansion or shrinkage of the industries we serve occurs.

Risks Associated with Ownership of Our Common Shares

The market price for our common shares may be volatile, which could result in substantial losses to investors.

The trading prices for our common shares have fluctuated since we first listed our common shares. Since our common shares became listed on the NASDAQ on July 28, 2017, the trading price of our common shares has ranged from \$1.32 to \$29.38 per common share, and the last reported trading price on June 4, 2020 was \$2.49 per common share. The market price of our common shares may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our revenue and other operating results;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- lawsuits threatened or filed against us;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole; and
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. Stock prices of many companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have filed securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business.

Securities analysts may not publish favorable research or reports about our business or may publish no information at all, which could cause our stock price or trading volume to decline.

If a trading market for our common shares develops, the trading market will be influenced to some extent by the research and reports that industry or financial analysts publish about us and our business. We do not control these analysts. As a young public company, we may be slow to attract research coverage and the analysts who publish information about our common shares will have had relatively little experience with us or our industry, which could affect their ability to accurately forecast our results and could make it more likely that we fail to meet their estimates. In the event any of the analysts who cover us provide inaccurate or unfavorable research or issue an adverse opinion regarding our stock price, our stock price could decline. If one or more of these analysts cease coverage of us or fail to publish reports covering us regularly, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline and result in the loss of all or a part of your investment in us.

We are an “emerging growth company,” and we cannot be certain if choosing to elect the reduced reporting requirements applicable to emerging growth companies will make our common shares less attractive to investors.

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

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

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

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Our disclosure controls and procedures must provide reasonable assurance that information we are required to disclose in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

If our financial condition deteriorates, we may not meet continued listing standards on the NASDAQ Capital Market.

The NASDAQ Capital Market also requires companies to fulfill specific requirements in order for their shares to continue to be listed. In order to qualify for continued listing on the NASDAQ Capital Market, we must meet the following criteria:

- Our shareholders' equity must be at least \$2,500,000; or the market value of our listed securities must be at least \$35,000,000; or our net income from continuing operations in our last fiscal year (or two of the last three fiscal years) must have been at least \$500,000;
- The market value of our shares must be at least \$1,000,000;
- The minimum bid price for our shares must be at least \$1.00 per share;
- We must have at least 300 shareholders;
- We must have at least 2 market makers; and
- We must have adopted NASDAQ-mandated corporate governance measures, including a Board of Directors comprised of a majority of independent directors, an Audit Committee comprised solely of independent directors and the adoption of a code of ethics among other items.

If our shares are delisted from the NASDAQ Capital Market at some later date, our shareholders could find it difficult to sell our shares. In addition, if our common shares are delisted from the NASDAQ Capital Market at some later date, we may apply to have our common shares quoted on the Bulletin Board or in the "pink sheets" maintained by the National Quotation Bureau, Inc. The Bulletin Board and the "pink sheets" are generally considered to be less efficient markets than the NASDAQ Capital Market. In addition, if our common shares are not so listed or are delisted at some later date, our common shares may be subject to the "penny stock" regulations. These rules impose additional sales practice requirements on broker-dealers that sell low-priced securities to persons other than established customers and institutional accredited investors and require the delivery of a disclosure schedule explaining the nature and risks of the penny stock market. As a result, the ability or willingness of broker-dealers to sell or make a market in our common shares might decline. If our common shares are delisted from the NASDAQ Capital Market at some later date or become subject to the penny stock regulations, it is likely that the price of our shares would decline and that our shareholders would find it difficult to sell their shares.

We will incur increased costs as a result of being a public company, which could have a material adverse effect on our profitability.

As a public company, we incur legal, accounting and other expenses that we did not incur as a private company. For example, we must now engage U.S. securities law counsel and U.S. GAAP auditors that we did not need prior to our initial public offering, and we will continue to have annual payments to remain listed on the Nasdaq Capital Market. In addition, the Sarbanes-Oxley Act, as well as new rules subsequently implemented by the SEC and NASDAQ, has required changes in corporate governance practices of public companies. We expect these new rules and regulations to increase our legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. In addition, we will continue to incur additional costs associated with our public company reporting requirements. Added costs of this nature will naturally reduce our profitability and could have a material adverse effect on our business.

The requirements of being a public company may strain our resources and divert management's attention, which could have a material adverse effect on our business.

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

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

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

The obligation to disclose information publicly may put us at a disadvantage to competitors that are private companies which could have an adverse effect on our results of operations.

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

Our classified board structure may prevent a change in control of our Company.

Our board of directors is divided into three classes of directors. Class A directors hold office for a term expiring at the 2020 annual meeting of shareholders, Class B directors hold office for a term expiring at the 2021 annual meeting of shareholders and Class C directors hold office for a term expiring as the 2022 annual meeting of shareholders. Directors of each class are chosen for three-year terms upon the expiration of their current terms. The staggered terms of our directors may reduce the possibility of a tender offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interest of our shareholders. See “Management – Board of Directors and Board Committees.”

Our officers and/or directors will control a sizeable amount of our common shares, decreasing your influence on shareholder decisions.

Our officers and/or directors will, in the aggregate, beneficially own approximately 44.4% of our outstanding shares. As a result, our employees, officers and directors possess substantial ability to impact our management and affairs and the outcome of matters submitted to shareholders for approval. These shareholders, acting individually or as a group, could exert substantial influence over matters such as electing directors and approving mergers or other business combination transactions. This concentration of ownership and voting power may also discourage, delay or prevent a change in control of our Company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our Company and might reduce the price of our common shares. These actions may be taken even if they are opposed by our other shareholders, including those who purchased shares in our initial public offering. See “Principal Stockholders.”

As the rights of stockholders under British Virgin Islands law differ from those under U.S. law, you may have fewer protections as a shareholder.

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the British Virgin Islands Business Companies Act, 2004 (the “BVI Act”), and the common law of the British Virgin Islands. The rights of shareholders to take legal action against our directors, actions by minority stockholders and the fiduciary responsibilities of our directors under British Virgin Islands law are to a large extent governed by the common law of the British Virgin Islands and by the BVI Act. The common law of the British Virgin Islands is derived in part from comparatively limited judicial precedent in the British Virgin Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the British Virgin Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under British Virgin Islands law are not as clearly established as they would be under statutes or judicial precedents in some jurisdictions in the United States. In particular, the British Virgin Islands has a less developed body of securities laws as compared to the United States, and some states (such as Delaware) have more fully developed and judicially interpreted bodies of corporate law.

As a result of all of the above, holders of our shares may have more difficulty protecting their interests through actions against our management, directors or major shareholders than they would as shareholders of a U.S. company. For a discussion of material differences between the provisions of the BVI Act and the laws applicable to companies incorporated in the United States and their shareholders, see “Description of Share Capital – Differences in Corporate Law.”

British Virgin Islands companies may not be able to initiate shareholder derivative actions in a federal court of the United States and may have to proceed with such action in the British Virgin Islands, thereby limiting shareholders’ ability to protect their interests.

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

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

Under the law of the British Virgin Islands, there is little statutory law for the protection of minority shareholders other than the provisions of the BVI Act dealing with shareholder remedies. The principal protection under statutory law is that shareholders may bring an action to enforce the constituent documents of the corporation, in our case, our Memorandum and Articles of Association. Shareholders are entitled to have the affairs of the company conducted in accordance with the general law and the Memorandum and Articles.

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

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

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

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

We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses.

As discussed above, we are a foreign private issuer, and therefore, we are not required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act. The determination of foreign private issuer status is made annually on the last business day of an issuer's most recently completed second fiscal quarter. We would lose our foreign private issuer status if, for example, more than 50% of our common shares are directly or indirectly held by residents of the United States and we fail to meet additional requirements necessary to maintain our foreign private issuer status. If we lose our foreign private issuer status on this date, we will be required to file with the SEC periodic reports and registration statements on U.S. domestic issuer forms, which are more detailed and extensive than the forms available to a foreign private issuer. We will also have to mandatorily comply with U.S. federal proxy requirements, and our officers, directors and principal shareholders will become subject to the short-swing profit disclosure and recovery provisions of Section 16 of the Exchange Act. In addition, we will lose our ability to rely upon exemptions from certain corporate governance requirements under the Nasdaq rules. As a U.S. listed public company that is not a foreign private issuer, we will incur significant additional legal, accounting and other expenses that we will not incur as a foreign private issuer, and accounting, reporting and other expenses in order to maintain a listing on a U.S. securities exchange.

Item 4. Information on the Company

A. History and Development of the Company.

Our Corporate Structure

Structural Overview

We are a holding company incorporated in the British Virgin Islands that owns all of the outstanding capital stock of Newater HK, our wholly owned Hong Kong subsidiary, Newater HK., in turn, owns all of the outstanding capital stock of our operating subsidiaries Jinzheng and Jinda that are based in Yantai, China and Hainan, China, respectively. On January 25, 2016, and February 5, 2016, respectively, Newater HK entered into an equity transfer agreement and supplementary equity transfer agreement with the shareholders of Jinzheng at the time, Yuebiao Li, Zhuo Zhang, and Yue Zhang, to acquire 100% of the equity interests in Jinzheng.

Organization Structure and Purpose

Newater Technology, Inc. – We formed Newater Technology, our British Virgin Islands holding company, on September 30, 2015.

Newater HK Limited – We formed Newater HK, our wholly owned Hong Kong subsidiary, on November 4, 2015.

Yantai Jinzheng Eco-Technology Co., Ltd. – We formed Jinzheng, our principal operating company in China and wholly owned subsidiary of Newater HK, on July 5, 2012. Jinzheng is registered in the Laishan District of Yantai. Its business scope includes the design, development, manufacturing and sale of DTRO membranes and related equipment and the installation of those products.

Yantai Jinzheng Eco-Technology Co., Ltd Xi'an Branch – We formed Jinzheng-Xi'an on March 27, 2019 in Xi'an, Shaanxi Province, its business scope includes the design, development, sale and installation of DTRO membranes, related equipment and wastewater treatment systems.

Newater Technology America, Inc. (“Newater America”) – We formed Newater America, our wholly owned U.S. subsidiary on April 24, 2019. Its business scope includes design, sale, installation of DTRO membranes, related equipment and wastewater treatment systems focusing on the North America market.

Jinda Eco-Technology (Hainan) Co., Ltd (“Jinda”) – We formed Jinda, a wholly owned subsidiary of Newater HK on April 30, 2019. Its business scope includes the sale and maintenance of water treatment equipment, consulting services for water treatment technology.

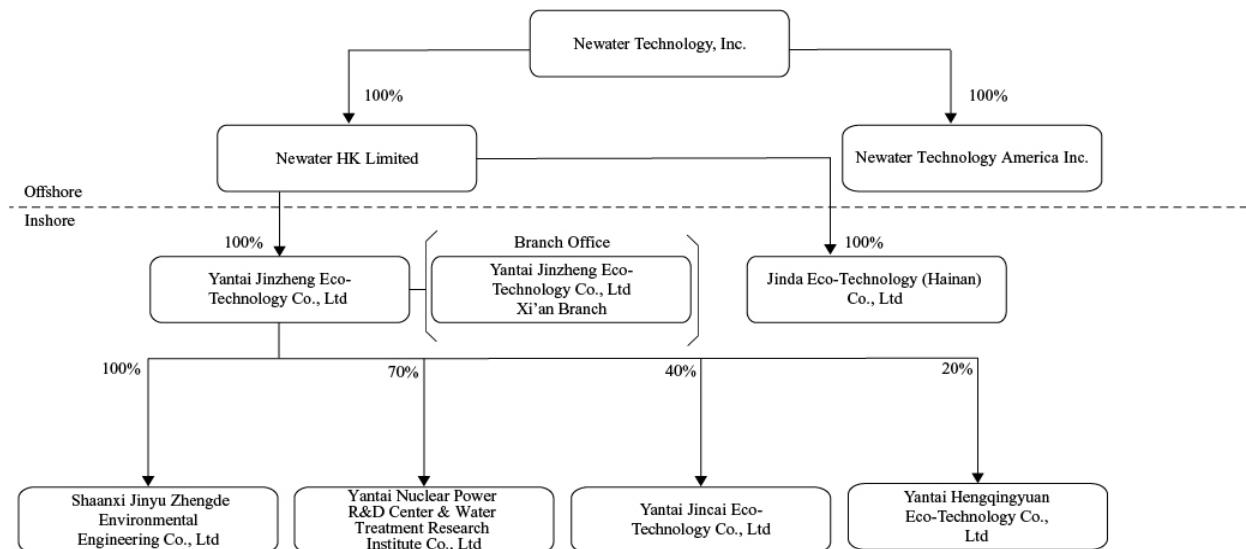
Shaanxi Jinyu Zhengde Environmental Engineering Co., Ltd (“Jinyu”) – We formed Jinyu, a wholly owned subsidiary of Jinzheng on June 14, 2019. Its business scope includes wastewater treatment, sales, installation and maintenance of eco-friendly equipment and related accessories and cooling equipment.

Yantai Nuclear-Power R&D Center & Water Treatment Research Institute Co., Ltd (“Yantai Nuclear-Power”) – We acquired 70% of the equity interests in Yantai Nuclear-Power from its former shareholders, as of the completion of the equity transfer on July 5, 2019, Jinzheng became a majority shareholder owning 70% of the equity interests in Yantai Nuclear-Power. Its business scope includes the manufacture and sale of eco-friendly equipment, the design, instalationl and sale of water treatment engineering projects.

Yantai Jincai Eco-Technology Co., Ltd (“Jincai”) – We formed Jincai, a 40% owned subsidiary on September 26, 2019. Its business scope includes the design, manufacture, sale, installation of reverse osmosis pure water equipment and wastewater treatment equipment and processing, the installation and sale of stainless-steel equipment, eco-friendly equipment and water supply equipment, and refuse cleanup.

Yantai Hengqingyuan Eco-Technology Co., Ltd (“Hengqingyuan”) – We formed Hengqingyuan, a 20% owned subsidiary on July 16, 2019. Its business scope includes the installation of electromechanical equipment, environmental technology development, technical consulting, the sale, maintenance, installation and leasing of purifying equipment, water supply and drainage equipment and general mechanical equipment.

Corporate Organizational Chart



Corporate History

On January 25, 2016, and February 5, 2016, respectively, Newater HK entered into an equity transfer agreement and supplementary equity transfer agreement with the shareholders of Jinzheng at the time, Yuebiao Li, Zhuo Zhang, and Yue Zhang, to acquire 100% of their equity interests in Jinzheng. Pursuant to the terms of the January 25, 2016 equity transfer agreement, Newater HK agreed to pay RMB 20,000,000 for 100% of their equity interests as follows: 1) RMB 11,000,000 to Yuebiao Li for his 55% equity interests in Jinzheng; 2) RMB 8,000,000 to Zhuo Zhang for her 40% equity interests in Jinzheng; and 3) RMB 1,000,000 to Yue Zhang for her 5% equity interests in Jinzheng. Further, pursuant to the terms of the February 5, 2016 supplementary equity transfer agreement the parties agreed that an additional RMB 8,537,365 would be paid for the equity interests in Jinzheng allocated as follows: 1) RMB 4,695,551 to Yuebiao Li; 2) RMB 3,414,946 to Zhuo Zhang; and 3) RMB 426,868 to Yue Zhang.

On March 27, 2016, the company issued 73,000 common shares at \$0.65 per share to the incorporator with total gross proceeds of \$47,450. Further, on March 27, 2016, a total of 8,117,000 shares were issued at \$0.65 per share, to six individuals and seven companies with total cash proceeds of \$5,276,050. On June 6, 2016, Newater Technology, Jinzheng and Newater HK entered in three separate Convertible Debt Investment Agreements with three individuals. Pursuant to the Convertible Debt Investment Agreements the loans from these individuals in the aggregate amount of RMB 20,000,000 were converted into 724,000 common shares of Newater Technology. Furthermore, on June 6, 2016, Newater Technology, Jinzheng and Newater HK entered into a Convertible Debt Investment Agreement with a fourth individual. Pursuant to the Convertible Debt Investment Agreement the loan from this individual in the aggregate amount of RMB 5,000,000 was converted into 275,000 common shares of Newater Technology.

For our business expansion into other provinces in China, we formed our Jinzheng-Xi'an on March 27, 2019, which mainly engages in design, sale, and installation of DTRO membranes, related equipment and systems for wastewater treatment.

To expand our reach into the international market, we established our wholly owned U.S. subsidiary on April 24, 2019. Its main business scope includes design, sale, and installation of DTRO membranes, related equipment and systems for wastewater treatment focusing on the North America market.

To further expand our business into southern China, Newater HK recently incorporated a wholly owned subsidiary on April 30, 2019, Jinda, which is based in Hainan, China and is mainly engaged in the sale and maintenance of water treatment equipment, and consulting services for water treatment technology.

On May 25, 2019, Jinzheng entered into separate equity transfer agreements with Yantai Taihai Group Co., Ltd and Beijing Grant Membrane Separation Equipment Co., Ltd, to acquire 10% and 60% of each party's equity interest in Yantai Nuclear-Power, respectively. The equity transfer was completed and registered with the local authority on July 5, 2019 and Jinzheng became the majority shareholder owning 70% of the equity interest in Yantai Nuclear-Power. The main business scope of Yantai Nuclear-Power includes the manufacture and sale of eco-friendly equipment, the design, installation and sale of water treatment engineering projects.

On June 14, 2019, Jinzheng established a wholly owned subsidiary, Jinyu, in Shaanxi province, its main business scope includes wastewater treatment, sales, installation and maintenance of eco-friendly equipment and related accessories and cooling equipment.

On July 16, 2019, Jinzheng formed Hengqingyuan with Yantai Guotai Investment Co., Ltd. Jinzheng holds a 20% equity interest in Hengqingyuan, and its business scope includes the installation of electromechanical equipment, environmental technology development, technical consulting, the sale, maintenance, installation and leasing of purifying equipment, water supply and drainage equipment and general mechanical equipment.

On September 26, 2019, Jinzheng formed Jincai as a wholly owned subsidiary. In December 2019, Jincai increased its registered capital and Yantai Caijin Investment Holding Co., Ltd, obtained a 60% equity interest in Jincai with Jinzheng owning the remaining 40% equity interest. The main business scope of Jincai includes the design, manufacture, sale, installation of reverse osmosis pure water equipment and wastewater treatment equipment and processing, the installation and sale of stainless-steel equipment, eco-friendly equipment and water supply equipment, and refuse cleanup.

The principal executive offices of our main operations are located at 1 Ruida Road, Laishan District, Yantai City, Shandong Province, People's Republic of China 264000. Our telephone number at this address is (+86) 535-6212280. Our registered office in the British Virgin Islands is at the offices of NovaSage Chambers, P.O. Box 4389, Road Town, Tortola, British Virgin Islands, British Virgin Islands. Our agent for service of process in the United States is Vcorp Agent Services, Inc. located at 25 Robert Pitt Dr., Suite 204, Monsey, New York 10952. Our corporate website is www.dtnewa.com.

B. Business Overview.

Business Overview

We are a wastewater purification treatment company that focuses on the development, manufacture and sale of DTRO and DTNF membrane filtration products that are used in the treatment, recycling and discharge of wastewater. We also supply hardware and engineered systems necessary to implement integrated solutions. We provide engineering support and installation, technical advice and service, and other project-related solutions to filter wastewater into valuable, clean water. In addition, we act as a solution provider and purify wastewater for customers, such as landfill leachate treatment and purification service. Our DTRO expertise enables us to develop an array of core materials and technologies that can be applied in a variety of ways to solve complex filtration, separation and purification challenges related to wastewater treatment. We also offer traditional wastewater treatment solutions, such as activated carbon and resins. Our products can be used across a wide spectrum of industries that include a wastewater treatment component and applications to treat wastewater for discharge or filtration into high quality, re-useable clean water, including:

- Treatment of leachate from landfills;
- Treatment of power plant wastewater;
- Treatment of wastewater from oilfields;
- Treatment of wastewater from gas production;
- Treatment of high acid wastewater;
- Treatment of high alkali wastewater; and
- Desalination.

We currently primarily serve the energy, refuse (garbage and waste), and chemical industries. Our deep customer process knowledge, scientific expertise, and related engineering know-how enable us to provide cost-effective solutions for our customers, with products that are specifically targeted to meet their needs.

Jinzheng was founded in 2012 by our Chief Executive Officer, Yuebiao Li, and our Chief Financial Officer, Zhuo Zhang. Mr. Li has approximately 11 years of experience in the water treatment industry. Ms. Zhang has 16 years of experience in financial related jobs. We are located in Yantai City, Shandong Province, China and which we employ 170 people on a full-time basis as of December 31, 2019. We have 13 employees in management and administration, 24 employees in sales and marketing, 37 employees in research and development, 70 employees in manufacturing and assembling, 12 employees in purchasing and quality control and 14 employees in finance and human resource.

We are actively pursuing additional markets and applications for our products and services, such as industrial parks, city sewage, and seawater desalination. Virtually all of the raw materials, process fluids and waste streams resulting from industrial applications are candidates for multiple stages of filtration, separation and purification.

We seek to establish long-term, strategic relationships with our clients by delivering specific filtration products and/or systems that help reduce our clients' operating costs and increase water filtration efficiencies. To achieve these objectives, we work closely with our clients to understand their specific water filtration needs. We enter into individualized contracts containing pricing terms tailored to the client's operation, with pricing driven by the value we create for the client, rather than a pricing model focused solely on being able to deliver the least expensive product or system offering. We believe we can enhance our ability to withstand competitive pricing pressure and obtain new and retain existing clients by offering tailored products and customized water treatment solutions.

We have received several industry awards, including:

- recognized as a High-Tech Enterprise in 2015 by Department of Science and Technology of Shandong Province;
- ISO9000 Authentication (certification based upon quality and consistency);
- ISO14001 Authentication (certification based upon environmental performance);
- GB/T28001 Authentication (management system certification);
- awarded as an outstanding member of the Inner Mongolia Environmental Protection Industry in 2015;
- recognized as a member of the Innovation Consortium of the Water Saving Contract Industry in 2017;
- recognized as a Technology Enterprise in 2017 for three years by Department of Science and Technology of Yantai City;
- recognized as a member of ESCO Committee of China Energy Conservation Association in 2017;
- Recognized as a one of the forth batch of Provincial Industrial Design Center of Shandong Province;

- Jinzheng's DTRO membrane engineering lab was recognized as the Engineering Lab of Shandong Province in 2018;
- Recognized as one of the seventh batch of the “Specialized & New” small & medium-sized enterprise (“SMEs”);
- Recognized as one of the twenty-fifth batch of Provincial Enterprise Technology Center of Shandong Province;
- Jinzheng's special membrane and membrane separation engineering technology research center was recognized as one of the Engineering Technology Research Center of Yantai City in 2018;
- Recognized as a High and New Technology Enterprise in 2018, valid for three years;
- Construction Enterprise Qualification (Level-3) with a certification NO. DW337097095, certified as a contractor engaging in electromechanical installation project and environmental engineering project;
- GB/T19001-2016 ISO9001:2015 Authentication (certification covering the research & development, production and service on sewage treatment equipment)
- Holder of Certificate of Conformity, which was issued and certified by the Eurocert on July 25, 2019 in regard to Jinzheng's wastewater treatment equipment that fulfill the basic health and safety prerequisites of Machinery Directive 2006/42/EC, this certificate is valid until July 24, 2024; and
- Holder of Certificate of Supervision of Final Assessment and Pressure Equipment Checks at Random Intervals According to European Directive 2014/68/EU (Module A2), which was issued by the Eurocert on July 24, 2019 and Jinzheng is entitled to mark the pressure equipment manufactured within the range of this certificate, the certificate is valid until July 23, 2020.
- Awarded as an Advanced Taxpayer in 2019;
- Awarded as an Advanced Unit for Key Construction Project in 2019;
- Awarded as an Advanced Unit for High-quality Development in 2019;
- Won the silver award of Yantai Mayor Cup Industrial Design Competition for Jinzheng's air energy desalination machine;
- Awarded as the Product Start of the 3rd Starlight Award of China Water Industry for Jinzheng's DTRO special membrane integrated processing equipment;
- Jinzheng's Vice-CTO Mr. Jinyu Fu was awarded as the Leading Figure of the 2nd Starlight Award of China Water Industry;
- Recognized as one of the Leading Enterprises of High-end Equipment Manufacturing Industry in Shandong Province;
- Jinzheng's 100m³/d volume landfill leachate two-stage system was recognized as one of the First Technical Equipment in Shandong Province;
- Jinzheng's DTRO landfill leachate treatment system and acid wastewater treatment system were recognized as two of the First Purchase of Innovative Products in Shandong Province; and
- Recognized as one of the tenth batch of the “Specialized & New” SMEs in Shandong Province.

In addition, we were invited to:

- the Jiangsu Environmental Protection Department exhibition in Nanjing;
- the West Lake International Desalination and Water Reuse Academic Summit, in which Mr. Li was a presenter.
- a workshop on zero-discharge of wastewater organized by the Institute of Thermal Power Plants; and
- to represent Chinese enterprises in the Ninth Environmental Chapter Meeting of the Southeast Asian Economic Exchange and Advancement Organization;
- Participated in the edition of two recommended national standards on the Zeta testing and Chlorine resistance testing of NF Membrane;
- Participated in the edition of a recommended national standard on the measurement of pore diameter of porous membrane, in which the deputy chief engineering of Jinzheng, Mr. Houzhang Ji, was a presenter;
- Participated in the edition of a recommended national standard on the testing method of the leakage of RO & NF equipment; and
- Participated in the edition of a recommended national standard on the evaluating method of the term of usage of hollow fiber membrane, in which Mr. Li was a presenter.

We believe our several industry awards, certificates and active participation at conferences and other events within our field, reflect widespread recognition of our stature in our industry and the perceived quality of our products and services.

Industry and Market Background

China's Membrane Filtration Market and Opportunity

The Chinese market for water treatment membranes is currently growing due to a number of key macroeconomic factors shape the water filtration membrane industry, including population growth, an increasing water-supply demand, urbanization, industrialization, and consumers' health and environmental awareness. We believe, however, that the market is influenced most by China's initiatives towards clean water.

In April 2015, the Chinese government issued the “Water Pollution Prevention and Control Action Plan”, or the “Water Ten Plan”). The Water Ten Plan is the result of coordination and input from more than twelve governmental ministries and departments and requires China’s water quality to improve by 2020 by:

- greatly reducing the percentage of badly polluted water bodies – over 70% of water in seven key rivers shall reach specified grading standards;
- improving the quality of drinking water – over 93% of urban drinking water sources shall reach specified grading standards;
- reducing groundwater over extraction and control groundwater pollution – 85% of groundwater shall reach specified grading standards;
- improving the environmental quality of coastal areas – up to 70% of coastal water shall reach specified grading standards; and
- improving urban water environment in key regions – the amount of extremely polluted water in Beijing-Tianjin-Hebei shall fall by 15%, and extremely polluted water shall be eliminated in Yangtze River Delta and Pearl River Delta.

Due to China’s recent focus on the continuous improvement of living standards through more stringent environmental laws and regulations for clean water, compliance with these laws will become more arduous and difficult for industries to achieve. Therefore, we believe new technology and applications in water filtration will be in greater demand, which we expect will, in turn, drive demand for our products.

In March 2016, China announced its 13th Five Year Plan (2016-2020), which, among other matters, attempted to plug gaps in China’s drinking water safety, such as water safety protection, water conservation reform and drinking water safety legislation. China’s five-year plans are blueprints containing the country’s social, economic, and political goals. They encompass and intertwine with existing policies, regional plans, and strategic initiatives. A five-year plan signals the Chinese government’s vision for future reforms and communicates this to other parts of the bureaucracy, industry players and Chinese citizens. It is a living document that will go through constant revision over the next five years. The 13th Five Year Plan contains clean water initiatives regarding the construction of urban sewage treatment and supporting facilities, urban reclaimed water recycling, and continued reduction of waste emissions. Further, the plan requires industrial products to be completed with improved product technology, process equipment, and energy efficiencies across the board. In addition, in the water pollution prevention action plan, there is an increased recognition on the importance of cooperating with foreign technological partners in the areas of water treatment process equipment. We believe these polices, among others, from the 13th Five Year Plan will cause more industries to utilize new technologies in water treatment, such as DTRO membrane filtration to comply with new laws and regulations that will likely be implemented pursuant to the 13th Five Year Plan.

China’s Energy Market

China has the world’s largest number of installed coal fired power plants, with more planned to be constructed each year. Coal-generated electricity has enormous impacts on freshwater systems. For example, a 500 Megawatt coal-fired power plant, in one cooling cycle, can withdraw enough water to deplete an Olympic-sized swimming pool roughly every three minutes. In many countries, the coal industry creates one of the largest demands on freshwater resources. From both the economic standpoint and the environmental protection standpoint, energy companies have great incentives to reduce the amount of their water usage and recycle the wastewater produced at their power plants into clean, re-useable water, to flow back into the power plants boilers and cooling systems for repeated use. The Water Ten Plan has also placed increased pressure and stricter requirements upon coal fired power plants to conserve water usage and recycle wastewater. In addition, the 13th Five Year Plan (2016-2020) includes provisions for building six to eight nuclear power plants a year for five years. Water used in nuclear power plants cannot be discharged or reused directly; it must be filtered and then discharged or reused. Water filtration membranes are beneficial in this context because they have a low failure rate, and a high filtration rate. Therefore, we believe the rapid development of Chinas’ nuclear power industry, along with the government’s enforcement tightening over water discharge for the traditional coal fired power plants, will provide the water filtration membrane industry with a significant opportunity.

Pharmaceutical Market

A wide variety of products are made in the pharmaceutical manufacturing industry, typically requiring large volumes of chemicals, materials, and substances that are used throughout the manufacturing process. Waste streams generated in this industry can be heavily laden with contaminants, toxins, nutrients, and organic content, presenting unique challenges in terms of treatment, especially as regulations become more stringent.

Additionally, as is the case in other industrial manufacturing sectors, water is a critical ingredient in pharmaceutical and chemical manufacturing operations; consistent and high-quality supplies are needed for a range of purposes including production, cleaning, material processing, and cooling. As disruptions in raw water supply represent a significant concern, more pharmaceutical companies are turning to water efficiency initiatives to help mitigate water scarcity-related risks. In fact, a variety of pharmaceutical companies in China are proceeding to upgrade their technology with membrane filtration products to enhance efficiency and achieve better environmental compliance. We expect this market will continue to grow as China is currently the second largest pharmaceutical market in the world reaching 137 billion at the end of 2018.

Industrial Market

China is still in the early to mid-stages of industrialization. China’s rapid development of its industrial economy has increased the demand for industrial water, which in turn produces a large amount of wastewater. The steel industry has seen the greatest growth in China in recent years. China is now the largest steelmaker in the world, accounting for almost half the world’s production. Water is used in steel production in the cooling process. Like steel, water can be reused and recycled, thus improving efficiency of use and reducing demand as well as cost. By increasing water recycling and cascading water use from higher to lower quality, steel producers have been able to reduce their water use and consumption considerably. If wastewater is not recycled it must be treated before it is released back into the environment. Our membrane filtration products can be used to treat wastewater, turning it into clean water, which can be released into the ecosystem or reused in production.

Titanium Dioxide Market

Driven by increasingly strict environmental protection policies, the titanium dioxide industry in China has begun seeking greater technological advances to filter wastewater. Titanium dioxide is used in many products, such as coloring for food, cosmetics, crayons, and UV protection in sunscreens. Titanium dioxide is also used in the paint industry, and gives paint its high gloss and rich depth of color. Titanium dioxide replaced lead in the paint manufacturing process. In addition, titanium dioxide is currently being used to treat the air in fruit, vegetable and cut flower storage areas to prevent spoilage and increases shelf life. The photocatalytic properties of titanium dioxide remove ethylene gas from the air. Ethylene is a naturally occurring gaseous hormone produced by plant tissue that in low concentrations triggers the ripening of fruits and vegetables.

Our membrane filtration products can be deployed in this industry as well. In fact, we installed a filtration system in a titanium dioxide plant in Yantai City, China, which we believe to be the first of its kind in China's titanium dioxide industry. For that particular project, in order to remove the impurities the facility filters the water three times, in three separate processes. Our membrane products are used at each filtering process to treat the wastewater, and create clean water that is reused in the filtering processes. The untreated wastewater contains high concentrations of acids and metals. While we believe that the deployment of our membrane filtration system in the context of a titanium dioxide operation is a new application in China, we believe other titanium dioxide manufacturers will follow suit.

Global Market

Globally, sales for membranes and membrane modules reached \$4.4 billion in 1999 and is expected to reach a value of \$17 billion by 2023.

Our Competitive Strengths

We believe the following competitive strengths differentiate us from our competitors and contribute to our ongoing success.

Product Advantages. We believe that our DTRO membranes possess better characteristics than traditional reverse osmosis membranes because our membrane technology offers industrial water users ways to clean their wastewater output or reuse it as clean water in the production process. We believe that our DTRO membranes will allow us to take advantage of dynamic market demands for superior membranes generated by stricter Chinese environmental laws and regulations.

Production Advantages. We have the ability to manufacture a variety of membrane filtration components, assembling and installing membrane units in filtration systems, testing membrane filtration units as well as developing, designing and manufacturing membrane filtration units, including DTRO membranes. In addition, we have conducted our own research to create what we believe is a more advanced and semi-automated membrane unit production line. We believe our China competitors are currently using manual assembly lines.

Experienced Management Team and Personnel with a Demonstrated Track Record. Our management team, led by our Chief Executive Officer Yuebiao Li, and our Chief Financial Officer, Zhuo Zhang, have significant industry experience and demonstrated track records of managing costs, adapting to changing market conditions, and developing new products. In addition, Mr. Li has a vast network and understanding of the market. Our workforce is highly skilled with specialized training, designed to address complex and individualized client issues.

Innovative Products. We have the technology to produce clean water from sewage wastewater through the use of DTRO membranes. We have not yet completed a sewage project where clean drinkable water was produced from treated leachate because we do not yet have the capacity. However, we have done sewage wastewater testing on 2 locations for 4 months to determine that we have the technology to produce clean water. Traditional sewage treatment companies invest large amounts of capital and operating costs to treat wastewater only so that it can be discharged in compliance with applicable environmental laws, but the wastewater has no end-use value. Our DTRO membranes have the ability to clean that same wastewater to a level that is suitable for drinking or other end uses, which enhances value to our customers in that market.

Strong Gross Margins. We believe that our gross margin, approximately 42% in 2019, allow us to compete effectively in a rapidly changing and increasingly complex Chinese market. We believe we can continue to maintain high gross margins while the demand for our membrane filtration products remains high and the technological barriers to enter the market remain in place. Technological barriers include experience, technological know-how and research and development.

We provide a full range of water treatment solutions and are not limited to the supply of water filtration products. We are able to install complete water treatment solutions for customers, which allow us to target end users, along with intermediaries. Our ability to provide customers with complete solutions, including engineering support, installation, and technical advice, for their water treatment needs allows us to capture many types of users in the water treatment market. In addition, being able to provide total solutions creates a larger market for our membrane products.

Our Strategies

We provide technical solutions in engineering projects, support and installation, technical advice and services and other water treatment related solutions. Our goal is to become one of the premier water treatment solution companies by implementing the following strategies:

Continue to develop filtration membrane products. We are committed to researching and developing filtration membranes for use in different industries. We believe scientific and technological innovations will help our Company achieve its long-term strategic objectives. For example, in the area of waste filtration and seawater desalination, we are developing and testing an extreme pressure (200 bar) membrane module. For the mining and smelting industries, we developed and produced an acid and basic separation membrane module.

We intend to increase our revenue and market share by targeting intermediate customers. We intend to target intermediate customers that do not produce their own products, such as engineering companies and project contractors. These customers tend to have a large demand for water filtration membrane products and water treatment solutions. We are able to provide these companies with new water treatment membrane products to replace the aging products of their customers or end users. This model helps us achieve continuous and stable profitability. It also helps us obtain institutional knowledge, which may be applicable to water treatment solutions for other clients.

Market Opportunity. China's 13th Five Year Plan (2016-2020) promotes a cleaner and greener economy, with strong commitments to environmental management and protection, clean energy and emissions controls, ecological protection and security, and the development of green industries. This demonstrates a focus on charting a sustainable course for the Chinese economy in the long-term. The 13th Five Year Plan offers opportunities for the private sector to support China's environmental goals and bring clean technology and innovation into China as part of the large-scale environmental reform contemplated by the 13th Five Year Plan. We will market our technology and applications in water filtration, which we expect will be in greater demand due to stricter environmental regulations.

We intend to expand our business into new industries. Currently, our customers are primarily in the energy, refuse (garbage and waste), and chemical industries (e.g., titanium dioxide). We plan to enter the industrial park wastewater treatment, municipality wastewater recycling, and seawater desalination industries. Treatment of wastewater from industrial parks usually includes the treatment of wastewater from several chemical companies located in an industrial park. The wastewater from all the companies in the industrial park will require treatment at the same wastewater treatment facility. This wastewater will possess several different chemicals. We believe that our DTRO membrane technology has the ability to treat the wastewater, and turn it into clean water that can be reused in production.

We intend to increase our revenue and market share by expanding our business network to other provinces. We started with our facility in Yantai City, Shandong Province. Currently, the majority of our customers are located in the Shandong Province, Beijing, Liaoning Province and Inner Mongolia Autonomous Region.

Our Products

Our product line is focused upon the refuse (garbage and waste), chemical and energy sectors. Our primary products are DTRO membranes, DTNF membranes and water purification equipment.

All of our products are produced in compliance with China Good Manufacturing Practices. We believe our products enjoy a good reputation in the industry. The following products are examples illustrating our expertise and research and development capability.

DTRO Membranes

Our DTRO membranes are able to treat highly concentrated sewage and are able to withstand high pressure and contamination. Our DTRO membranes offer our highest level of filtration. DTRO membranes are used to treat and recycle wastewater, and have the following advantages:

- high quality of outflowing water;
- consistent quality of wastewater after filtration;
- applicability to a variety of industries;
- ease of construction;
- efficient startup times;
- high degree of automation;
- use of less floor space;
- a high recovery rate (the amount of clean water that can be produced from treated wastewater) coupled with low energy consumption;
- low cost of operation;
- simplified pretreatment process;
- less clogging compared to traditional membranes;
- reduced scaling and contamination;
- longer lifespan;
- ease of maintenance;
- low replacement cost.

We produce three types of DTRO membranes, all of which can withstand different pressure amounts (75 Bar, 90 Bar and 120 Bar). The 75 Bar membrane is used for treating landfill leachate and for recycling water in titanium dioxide and power plants. For high-pressure environments, we manufacture 90 Bar and 120 Bar DTRO membranes. 90 Bar membranes treat wastewater in the chemical industry, and 120 Bar membranes desalinate seawater.

DTNF Membranes

Our DTNF membranes have larger pore sizes than our DTRO membranes, and unlike DTRO membranes do not reject all ions. They have higher water permeability than our DTRO membranes and operate at much lower pressures. Our DTNF membranes are used in different industries than our DTRO membranes, and are generally used for our clients that have acidic wastewater or wastewater containing high levels of alkali. These clients use DTNF membranes because they are able to achieve the required levels of filtration, but cost less to operate than DTRO membranes because less energy is needed in the filtration process of DTNF membranes, making them a more economical alternative when primarily divalent ion removal is required.

The DTNF membrane is used to treat and recycle wastewater, and has the following advantages:

- the ability to process large volumes of water;
- reduction of heavy metals;
- superior nitrate and sulfate reduction qualities;
- ability to soften hard water; and
- color removal from water.

We produce three types of DTNF membranes. The first DTNF membrane is used to treat highly acidic water. This membrane is best suited for the iron and steel, titanium dioxide and smelting industries. This type of membrane is useful for clients that have wastewater containing high sulfuric acid levels.

The second DTNF membrane is used to treat wastewater with high alkaline levels. It is normally used in applications where manufacturing equipment needs to be cleaned. This type of membrane has been successfully used by clients in the fertilizer industry.

The third DTNF membrane is used to treat wastewater containing divalent ions and wastewater containing smaller molecular weight particles and amino acids. This type of membrane has also been successfully used by clients in the fertilizer industry.

Our Projects

We specialize in producing and installing wastewater membrane filtration systems for customers that require customized wastewater filtration systems to treat wastewater upon discharge into the ecosystem or to reuse such water in their operating systems. We also offer traditional wastewater treatment solutions. Currently, our customers are primarily in the waste (garbage), chemical and energy industries. We hope to expand our customer base in the future to industrial park wastewater treatment, municipality wastewater recycling, and seawater desalination industries. Due to the unique requirements of clients in these different industries, we focus on designing filtration systems that are tailored to fit the needs of specific clients, and we use skilled workers to install these systems.

The following examples illustrate some of our installation projects utilizing our membrane filtration technology:

- (1) Treatment of 2,400 cubic meters tons of wastewater per day for reuse in a titanium dioxide plant in Yantai City, Shandong Province.



- (2) Treatment of leachate (1,000 tons per day) at a garbage landfill site in Shaanxi Province, China. In processing landfill leachate, DTRO technology, compared with traditional technologies, has the advantages of higher operation stability, consistent high water recovery rate, more fouling-resistant, and a longer lifespan.



- (3) Zero Liquid Discharge (ZLD) project at a power plant located in Shandong, China. Due to the severe air pollution problems in China, the Chinese government has imposed stringent regulations on power plant air and liquid emission. DTRO filtration was used as the essential component in the wastewater treatment system to filter wastewater and ultimately achieve ZLD.



- (4) DTRO system in containers for wastewater from industrial park located in Shaanxi Province, China with 1,100 tons per day capacity. The Company innovatively designed DTRO systems in weather-proof containers for efficiency in shipping and on-site installation.



Our Services

In 2017 we began acting as a solution provider and purify wastewater for customers, such as landfill leachate treatment and purification service. For example, we provided landfill leachate filtration service to various landfill sites located across China. All the equipment used to treat the leachate is built, owned and operated by us and service revenue was calculated based on the volume of wastewater inflow. The services will continue to be provided in 2020.

Sales and Marketing

We are increasing our marketing efforts. We have established marketing networks in many cities throughout China. We have established customer contacts in the cities of Yantai, Beijing, Harbin and Shanghai, and we are in the process of expanding markets in Shandong Province, Jiangsu Province and Inner Mongolia Autonomous Region. Customer contacts can take sales orders, visit existing clients or prospective clients, troubleshoot issues for clients and/or offer solutions and engage technical support from the company to resolve the client's challenges. We currently have business cooperation partners in Northeast China and Beijing. We plan to develop more business cooperation partners in Anhui Province and Inner Mongolia Autonomous Region in 2030.

We plan to continue to develop our client base of intermediate users of water filtration membrane products, such as engineering companies and project contactors that do not manufacture their own water filtration products. We believe there is a significant opportunity to provide intermediate users filtration products for use in projects for their customers. In addition, we will continue to seek smaller to intermediate sized projects that our larger competitors are not aware of or for which they cannot effectively compete due to economies of scale. As a result of our operating efficiencies and size, we are able to implement smaller scale projects on a profitable basis.

The focus of our sales and marketing efforts is to educate prospective customers on what we believe differentiates us as a water treatment business provider in the market. Specifically, our sales and marketing efforts focus on our approach of being able to provide tailored and complete water treatment solutions or customized filtration products. We are able to provide a client with a comprehensive water treatment solution plan that gives the client quantifiable value per dollar spent for our products, projects and services. This provides the client a means of comparing value created per dollar spent by comparing solution plans they may receive from our competitors. We believe that this approach has been crucial in winning and retaining clients and increasing our ability to withstand competitive pricing pressure.

Competition

We face significant competition in our market from numerous large companies and many smaller regional competitors. In some instances, our primary competition comes from alternative, often older technologies, such as chemical additives, sand filtration, and pasteurization as opposed to the finer level of membrane filtration that we provide. There are barriers to entry in our market limiting the number of qualified competitors. These barriers result from stringent product performance standards, product qualification protocols and requirements for consistent levels of service and support. We believe that our broad array of products and product designs coupled with our engineering and manufacturing expertise enables us to provide customers with differentiated product performance and value and customer support.

Many large foreign corporations have entered the Chinese market, including Pall Corporation, Rochem Group, General Electric, and Koch Industries, Inc. Large foreign corporations have a competitive advantage over us with regard to capital and technology. We also compete with a domestic company, Beijing Tiandiren Environmental Protection Co., Ltd.

Our products are generally customized. Customers' needs and requirements vary from project to project. As a result, technical solutions at bidding create price driven competition. We attempt to mitigate this price pressure by differentiating ourselves from our competition based on the value we bring to clients through the quality of our products, projects and services and the ability to provide tailored solutions for their needs.

We believe we have competitive advantages in the market we serve due to our ability to identify smaller-sized projects occurring throughout China due to Mr. Li's network and experience. Many of these opportunities are not as widely publicized as larger-scale projects, which often opt for foreign systems manufactured by large corporations. We are able to maximize our deal flow by being aware of all opportunities due to information provided by our sales team. In addition, we enjoy the advantage of being able to provide products to intermediate users that are unable to produce their own filtration products.

The principal competitive factors in our markets include:

- the ability to provide projects, products and services that are innovative and attractive to customers;
- product functionality, quality and performance;
- pricing;
- ability to find projects;
- reputation in the market;
- ability to introduce new products to the market in a timely manner; and
- ability to address unique client needs.

Research and Development

We are committed to researching and developing filtration membranes for use in different industries. We believe scientific and technological innovations will help our Company achieve its long-term strategic objectives.

In light of differing water solution needs for each industry and customer, we can develop unique DTRO membranes and modules tailored to the particular requirements of each customer. In the field of reusing high quality wastewater, we developed a fully-automated dry DTRO membrane production line. In the area of waste filtration and seawater desalination, we are developing and testing an extreme pressure (200 bar) membrane module. For the mining and smelting industries, we developed and produced an acid and basic separation membrane module. The concentrate acid from mining and smelting industries is normally treated with lime/calcium oxide, to neutralize the waste. Currently spiral wound membrane modules technology are used, however, they are easily blocked in the treatment process. Our acid DTRO membrane module has better performance than spiral wound membrane module technology because it is not as easily blocked. We are currently investigating other industries to develop unique membranes. Our research and development efforts are an integral part of our operations and the crux of our differentiation strategy, which we believe to be our competitive advantage.

As of December 31, 2019, our research and development team had a total of 37 researchers and analysts focusing on mechanical design and advancements in membrane technology, including water-resistant membrane, high-pressure membranes, antipollution membranes and enhanced acid separator membranes and desalination membranes. Quality control is an important aspect of the team's work and ensuring quality at every stage of the process has been a key driver in maintaining and developing brand value.

For the years ended December 31, 2019, 2018 and 2017, we spent \$1,826,346, \$2,654,513 and \$1,355,648, respectively, on research and development. We anticipate that we will focus our research and development efforts on improving existing products and developing new technology in the coming years.

Sources of Raw Materials

We purchase raw materials on the market at prevailing market prices. We purchase from a variety of suppliers and believe these raw materials are widely available. We purchase our membrane columns, pumps and other components of water treatment equipment from Dalian Huarui Heavy Industry Group Limited by Share Ltd., which accounted for 3% of our total raw materials purchases for the year ended December 31, 2019. We believe our relationships with the suppliers of our raw materials are strong. We do not expect the prices of such raw materials to vary greatly from their current prices, as there has traditionally been little price volatility for such materials. If we were unable to purchase from our primary suppliers, including Dalian Huarui Heavy Industry Group Limited by Share Ltd., we do not expect we would face difficulties in locating other suppliers at substantially the same prices, but may experience delays, which may be substantial, in transitioning to the new supplier.

Intellectual Property Rights

We rely on our technology patents to protect our domestic business interests and ensure our position as a water filtration DTRO membrane pioneer in our industry. We have placed a high priority on the management of our intellectual property. Some products that are material to our operating results incorporate patented technology. Patented technology is critical to the continued success of our products. However, we do not believe that our business, as a whole, is dependent on, or that its profitability would be materially affected by the revocation, termination, expiration or infringement upon any particular patent. Patents in China are principally protected under the Patent Law of China. The duration of a patent right is either 10 years (utility model or design) or 20 years (invention) from the date of application, depending on the type of patent right. We currently hold 58 patents in China:

Proprietary Name	Patent No	Patent Type	Application Date	Approval Date	Expiration Date	Authority
Reverse Osmosis concentrated water recycling equipment with additional booster pump	ZL 2014 2 0430050.9	Utility Model	8/1/2014	12/10/2014	8/1/2024	China State Intellectual Property Office
Oilfield drilling water bottom mud wastewater treatment equipment	ZL 2014 2 0821047.X	Utility Model	12/23/2014	5/20/2015	12/23/2024	China State Intellectual Property Office
Unpowered back wash filter equipment	ZL 2014 2 0821941.7	Utility Model	12/23/2014	5/27/2015	12/23/2024	China State Intellectual Property Office
Disk type membrane column recycled water recovery equipment	ZL 2014 2 0838892.8	Utility Model	12/26/2014	5/20/2015	12/26/2024	China State Intellectual Property Office
Rounded membrane filter equipment	ZL 2014 2 0839414.9	Utility Model	12/26/2014	5/27/2015	12/26/2024	China State Intellectual Property Office
Electrochemical, catalytic oxidation combined device for treatment of high concentration organic wastewater	ZL 2014 2 0859863.X	Utility Model	12/31/2014	5/27/2015	12/31/2024	China State Intellectual Property Office
Automatic identification of positive and reverse function of secondary water supply equipment control system	ZL 2014 2 0860988.4	Utility Model	12/31/2014	7/8/2015	12/31/2024	China State Intellectual Property Office
Water supply equipment control system of automatic switch between double power source	ZL 2014 2 0861010.X	Utility Model	12/31/2014	5/6/2015	12/31/2024	China State Intellectual Property Office

Proprietary Name	Patent No	Patent Type	Application Date	Approval Date	Expiration Date	Authority
Disc tube two-stage system reserve osmosis membrane	ZL 2016 2 0180627.4	Utility Model	3/10/2016	7/27/2016	3/10/2026	China State Intellectual Property Office
New type of disc tube reserve osmosis membrane column for sterilization	ZL 2016 2 0657397.6	Utility Model	6/29/2016	12/14/2016	6/29/2026	China State Intellectual Property Office
Disc tube reserve osmosis system with constant recovery rate	ZL 2017 2 0863934.7	Utility Model	7/17/2017	2/2/2018	7/17/2027	China State Intellectual Property Office
New type of diversion plate used in disc tube membrane column	ZL 2017 2 0863935.1	Utility Model	7/17/2017	2/2/2018	7/17/2027	China State Intellectual Property Office
Zero discharge treatment recycling device for dyeing wastewater	ZL 2017 2 0863942.1	Utility Model	7/17/2017	1/19/2018	7/17/2027	China State Intellectual Property Office
Pre-processing treatment equipment for desulfurization waste water of power plant	ZL 2017 2 0863945.5	Utility Model	7/17/2017	2/23/2018	7/17/2027	China State Intellectual Property Office
Multistage disc tube reserve osmosis system	ZL 2017 2 0864450.4	Utility Model	7/17/2017	1/19/2018	7/17/2027	China State Intellectual Property Office
Pre-processing equipment for the modularity of disc tube reserve osmosis system	ZL 2017 2 0864516.X	Utility Model	7/17/2017	1/23/2018	7/17/2027	China State Intellectual Property Office
Disc tube reserve osmosis system with low energy consumption and high recovery rate	ZL 2017 2 0864953.1	Utility Model	7/17/2017	3/9/2018	7/17/2027	China State Intellectual Property Office
Mobile high-salt organic waste water recycling equipment	ZL 2017 2 0864955.0	Utility Model	7/17/2017	1/23/2018	7/17/2027	China State Intellectual Property Office
Packing box	ZL 2017 3 0429766.6	Design	9/12/2017	1/23/2018	9/12/2027	China State Intellectual Property Office
A DTNF treatment system for heavy metal wastewater	ZL 2018 2 0884994.1	Utility Model	6/8/2018	2/5/2019	6/7/2028	China State Intellectual Property Office
A deflector plate of DTRO membrane for water treatment	ZL 2018 2 0855004.1	Utility Model	6/4/2018	4/2/2019	6/3/2028	China State Intellectual Property Office
A deflector plate for DTRO component	ZL 2018 2 0852364.6	Utility Model	6/4/2018	4/2/2019	6/3/2028	China State Intellectual Property Office
A DTRO treatment system for hypersaline water	201820852787.8	Utility Model	6/4/2018	4/9/2019	6/3/2028	China State Intellectual Property Office

Proprietary Name	Patent No	Patent Type	Application Date	Approval Date	Expiration Date	Authority
A new type of deflector for DTRO membrane column	2018220835233	Utility Model	12/12/2018	11/5/2019	12/11/2028	China State Intellectual Property Office
A deflector for DTRO reverse osmosis components	2018220644202	Utility Model	12/10/2018	12/31/2019	12/09/2028	China State Intellectual Property Office
Landfill leachate treatment membrane column	2018220656873	Utility Model	12/10/2018	12/31/2019	12/09/2028	China State Intellectual Property Office
A system for landfill leachate treatment	201821977615X	Utility Model	11/28/2018	11/05/2019	11/27/2028	China State Intellectual Property Office
An integrated processing equipment for landfill leachate	2018216499422	Utility Model	10/11/2018	07/12/2019	10/10/2028	China State Intellectual Property Office
A pretreatment device for high-calcium & desulfurization wastewater	2018216499441	Utility Model	10/11/2018	07/12/2019	10/10/2028	China State Intellectual Property Office
A device for clamping membrane robs to conduct multi-axial motion	2018213571264	Utility Model	08/22/2018	05/17/2019	08/21/2028	China State Intellectual Property Office
A jacking transplanting platform for wastewater treatment equipment production shop	2018213571279	Utility Model	08/22/2018	05/17/2019	08/21/2028	China State Intellectual Property Office
A recycling system for metallurgical salt waste acid	2018213571283	Utility Model	08/22/2018	08/13/2019	08/21/2028	China State Intellectual Property Office
A mechanism for conveying DTRO membrane column to automatically plugging rubber plug	2018213579270	Utility Model	08/22/2018	05/17/2019	08/21/2028	China State Intellectual Property Office
An automatic tighten and anti-rotation mechanism for upper and lower nuts on a membrane rob	2018213579285	Utility Model	08/22/2018	06/11/2019	08/21/2028	China State Intellectual Property Office
A back-plate hoist for chain tie rob tooling board	201821357929X	Utility Model	08/22/2018	05/17/2019	08/21/2028	China State Intellectual Property Office
An automatic unpacking and flipping equipment	2018213587722	Utility Model	08/22/2018	05/17/2019	08/21/2028	China State Intellectual Property Office
A transmission device for automatically picking and sorting deflector	2018213587737	Utility Model	08/22/2018	05/17/2019	08/21/2028	China State Intellectual Property Office

Proprietary Name	Patent No	Patent Type	Application Date	Approval Date	Expiration Date	Authority
A multi-dimensional destacking and loading equipment for water treatment workpiece production shop	2018213587741	Utility Model	08/22/2018	06/11/2019	08/21/2028	China State Intellectual Property Office
A machinery for adjusting and positioning the rob of the water treatment membrane column up and down	2018213587756	Utility Model	08/22/2018	06/11/2019	08/21/2028	China State Intellectual Property Office
A multi-cylinder plunger pump with manual rocker	2019204788638	Utility Model	4/10/2019	1/14/2020	4/9/2029	China State Intellectual Property Office
An integrated device for steel pickling wastewater treatment	2019203680876	Utility Model	3/22/2019	2/21/2020	3/21/2029	China State Intellectual Property Office
A new type of DTRO high pressure resistant membrane column	2019206654159	Utility Model	5/10/2019	1/19/2020	5/9/2029	China State Intellectual Property Office
A DTRO high pressure resistant membrane column and its water inlet flange	201920665188X	Utility Model	5/10/2019	1/6/2020	5/9/2029	China State Intellectual Property Office
A device for installing and disassembling the DTRO reverse osmosis membrane module and bracket	2019206654553	Utility Model	5/10/2019	1/15/2020	5/9/2029	China State Intellectual Property Office
A system for simultaneous processing cutting fluid waste and high calcium and magnesium waste	2019207282219	Utility Model	5/21/2019	1/19/2020	5/20/2029	China State Intellectual Property Office
flange	2019305326896	Design	9/27/2019	2/3/2020	9/26/2029	China State Intellectual Property Office
flange	2019305325376	Design	9/27/2019	2/3/2020	9/26/2029	China State Intellectual Property Office
A modular structure for DTRO reverse osmosis water treatment equipment	2019206651979	Utility Model	5/10/2019	1/15/2020	5/9/2029	China State Intellectual Property Office

Proprietary Name	Patent No	Patent Type	Application Date	Approval Date	Expiration Date	Authority
A treatment method and system for high concentration brine	2019113054892	Invention	18/12/2019	4/14/2020	17/12/2039	China State Intellectual Property Office
A DTRO component for outdoor single use	2019208419026	Utility Model	6/5/2019	4/14/2020	6/4/2029	China State Intellectual Property Office
A treatment device for hypersaline & hyper COD waste water	2019208590378	Utility Model	6/10/2019	4/14/2020	6/9/2029	China State Intellectual Property Office
DTRO membrane column	2019306129081	Design	11/7/2019	4/14/2020	11/6/2029	China State Intellectual Property Office
DTRO membrane column	2019306129109	Design	11/7/2019	4/14/2020	11/6/2029	China State Intellectual Property Office
A floating water intake device for water treatment industry	ZL 2019 2 0928416.8	Utility Model	20/6/2019	12/5/2020	19/6/2029	China State Intellectual Property Office
An assembly line for treating landfill leachate	ZL 2019 2 1128492.7	Utility Model	18/7/2019	12/5/2020	17/7/2029	China State Intellectual Property Office
A four-stage reverse osmosis system for treating municipal wastewater	ZL 2019 2 1128072.9	Utility Model	18/7/2019	12/5/2020	17/7/2029	China State Intellectual Property Office
A processing device for zero discharge of saturated brine	ZL 2019 2 1208295.6	Utility Model	30/7/2019	12/5/2020	29/7/2029	China State Intellectual Property Office
A membrane column flange of water treatment and purification equipment	ZL 2019 3 0532530.4	Utility Model	27//2019	12/5/2020	26/9/2029	China State Intellectual Property Office

REGULATION

Regulations and National Policies Relating to the Water Treatment Equipment Manufacturing Industry

Pursuant to (a) the Law of China on the Prevention and Control of Water Pollution (2017 Revision), (b) the Law of China on Circular Economy Promotion (2018 Revision), and (c) Regulation on Urban Drainage and Sewage Treatment which was adopted in 2014, the Chinese government supports the application of advanced and applicable technology to the prevention and control of water pollution, the research, development and promotion of science and technology. Further, the Chinese government encourages social funds to invest, construct and operate urban drainage and sewage treatment equipment.

Pursuant to the Water Ten Plan, the Chinese government adopted specific targets related to water quality and environmental protection. To achieve these targets, the government will promote research and advanced technologies on water pollution treatment and recycling.

Regulation Relating to the Establishment of Foreign-Invested Enterprises and Foreign Investment

The Company Law. The establishment, operation and management of corporate entities in China is governed by the Company Law of the PRC (2018 Revision), which was promulgated and became effective on October 26, 2018. The Company Law of the PRC applies to both domestic companies and foreign-invested companies established in the PRC.

Foreign Investment. The current laws that regulate foreign investment in China are the Foreign Investment Law of the PRC and the Regulation for Implementing the Foreign Investment Law of the PRC, which was promulgated by the National People's Congress and the State Council on March 15, 2019 and December 26, 2019, respectively, and both came into effect on January 1, 2020, collectively the Foreign Investment Laws.

The Foreign Investment Laws replaced the trio of laws that were used to regulate foreign investment in China, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law to be specific, together with their implementation rules and ancillary regulations. The existing foreign-invested enterprises established prior to the implementation of the Foreign Investment Laws will be offered a five-year transitional period, which, among other things, they may retain their corporate forms until January 1, 2025.

Pursuant to the Foreign Investment Law of the PRC, “foreign investors” means natural persons, enterprises, or other organizations of foreign countries; “foreign-invested enterprises” means any enterprise established under PRC laws that is wholly or partially invested by foreign investors; “foreign investment” means any foreign investor’s direct or indirect investment in mainland China, including: (i) establishing foreign-invested enterprises in mainland China either individually or jointly with other investors; (ii) obtaining stock shares, stock equity, property shares, other similar interests in Chinese domestic enterprises; (iii) investing in new projects in mainland China either individually or collectively with other investors; and (iv) making investment through other means regulated by laws, administrative regulations, or State Council provisions.

The Foreign Investment Law of the PRC stipulates that China implements the management system of pre-establishment national treatment plus a negative list. The system of pre-establishment national treatment requires treatment given to foreign investors and their investments during the market access stage shall not be inferior to treatment afforded to PRC domestic investors and their investments except where a foreign investment falls in to the negative list. Foreign investors are forbidden from investing in prohibited industries on the negative list and must comply with the specific requirements when investing in non-prohibited industries on the list.

In addition, the Foreign Investment Laws also provide several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that (i) local governments shall abide by their policy commitments to the foreign investors and perform all their contracts legally entered into with the foreign investors, alternations to those policy commitments and contracts shall be proceed by statutory procedures, and compensation shall be made to foreign investors if any losses occurred; (ii) the government generally does not expropriate foreign investments, except under special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner; (iii) mandatory technology transfer by any administrative measures are prohibited; and (iv) the capital contributions, profits, capital gains, proceeds out of asset disposal, licensing fees of intellectual property rights, indemnity or compensation legally obtained, or proceeds received upon liquidation within the PRC, may be freely remitted in RMB or a foreign currency in accordance with relevant laws and regulations.

Furthermore, foreign investments in China are subject to investment information reporting obligations under the Foreign Investment Laws, which further stipulated in the Measures for Reporting of Foreign Investment Information, or the Foreign Investment Reporting Measures, that jointly promulgated by the MOFCOM and the State Administration for Market Regulation on December 30, 2019 and became effective on January 1, 2020 and that replaced the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises. Pursuant to the Foreign Investment Reporting Measures, foreign investors and foreign-invested enterprises are obligated to submit investment information reports in regard with their direct or indirect investment activities in China through the Enterprise Registration System and the National Enterprise Credit Information Publicity System, such reports include their preliminary report (report relating to their establishment), modification report, deregistration report and annual report, commencing from January 1, 2020.

Negative List. The MOFCOM and the National Development and Reform Commission jointly promulgated the Special Management Measures for the Access of Foreign Investment (Negative List) (2019) on June 30, 2019, or the Negative List, which became effective on July 30, 2019. Foreign investments in China are regulated by the Negative List.

Pursuant to the Negative List, foreign-invested enterprises are not allowed to engage in businesses which are prohibited by the Negative Lists, and businesses which conduct by foreign-invested enterprises that are non-prohibited in the Negative Lists are required to obtain prior special approvals. Newater is primarily engaged in the water treatment equipment manufacturing business, which does not fall within the Negative List.

Regulation of Foreign Currency Exchange and Dividend Distribution

Foreign Currency Exchange. The principal regulations governing foreign currency exchange in China include the Foreign Exchange Administration Regulations (2008 Revision), the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996) and the Interim Measures on Administration on Foreign Debts (2003). Under these regulations, Renminbi are freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for most capital account items, such as direct investment, loans, repatriation of investment and investment in securities outside China, unless the prior approval of SAFE or its local counterparts is obtained. In addition, any loans to an operating subsidiary in China that is a foreign invested enterprise, cannot, in the aggregate, exceed the difference between its respective approved total investment amount and its respective approved registered capital amount. Furthermore, any foreign loan must be registered with SAFE or its local counterparts for the loan to be effective. We may not be able to obtain these government approvals or registrations on a timely basis, if at all, which could result in a delay in the process of making these loans.

Pursuant to the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996) and the Foreign Exchange Administration Regulations (2008 Revision), foreign-invested enterprises in China may purchase or remit foreign exchange, subject to a cap approved by SAFE, for settlement of current account transactions without the approval of SAFE. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from, or registration with, SAFE and other relevant Chinese governmental authorities.

Dividend Distribution. The principal regulations governing the distribution of dividends by foreign holding companies include the Company Law of China (2018 Revision), the Foreign Investment Law of the PRC and its implementation rule.

Under these regulations, foreign-invested enterprises in China may pay dividends only out of their retained profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, foreign-invested enterprises in China are required to allocate at least 10% of their respective retained profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends, and a foreign-invested enterprise is not permitted to distribute any profits until losses from prior fiscal years have been offset.

Circular 37. On July 4, 2014, SAFE issued Circular 37, which became effective as of July 4, 2014. According to Circular 37, Chinese residents shall apply to SAFE and its branches for going through the procedures for foreign exchange registration of overseas investments before contributing the domestic assets or interests to a SPV. An amendment to registration or filing with the local SAFE branch by such Chinese resident is also required if the registered overseas SPV's basic information such as domestic individual resident shareholder, name, operating period, or major events such as domestic individual resident capital increase, capital reduction, share transfer or exchange, merger or division has changed. Although the change of overseas funds raised by overseas SPV, overseas investment exercised by overseas SPV and non-cross-border capital flow are not included in Circular 37, we may be required to make foreign exchange registration if required by SAFE and its branches.

Moreover, Circular 37 applies retroactively. As a result, Chinese residents who have contributed domestic assets or interests to a SPV, but failed to complete foreign exchange registration of overseas investments as required prior to implementation of Circular 37, are required to send a letter to SAFE and its branches for explanation. Under the relevant rules, failure to comply with the registration procedures set forth in Circular 37 may result in receiving a warning from SAFE and its branches, and may result in a fine of up to RMB 300,000 for an organization or up to RMB 50,000 for an individual. In the event of failing to register, if capital outflow occurred, a fine up to 30% of the illegal amount may be assessed.

On February 13, 2015, the State Administration of Foreign Exchange issued the Circular on Further Simplifying and Improving Policies for Foreign Exchange Administration on Direct Investment, which became effective on June 1, 2015, or Circular 13, the SAFE assigned its foreign exchange registration for both domestic and oversea direct investment business to licensed Chinese banks, Chinese residents who are required to go through foreign exchange registrations under Circular 37 can register with qualified banks rather than the SAFE and its branches.

Chinese residents who control our Company are required to register with qualified banks in connection with their investments in us. If we use our equity interest to purchase the assets or equity interest of a Chinese company owned by Chinese residents in the future, such Chinese residents will be subject to the registration procedures described in both Circular 37 and Circular 13.

Circular 19 & Circular 16. On March 30, 2015, SAFE issued the Circular Concerning the Reform of the Administration of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or Circular 19, which became effective on June 1, 2015. Circular 19 regulates the conversion of foreign currency capital funds into RMB by a foreign-invested enterprise, and limits how the converted RMB may be used.

Furthermore, SAFE promulgated a circular on June 9, 2016, Circular on Reforming and Regulating Policies on the Administration over Foreign Exchange Settlement under Capital Accounts, or Circular 16, which further revises several clauses in Circular 19. Both Circular 19 and Circular 16 regulate that foreign exchange incomes of a domestic enterprise under their capital account shall not be used in the ways stated below:

- For expenditures that are forbidden by relevant laws and regulations, or for purposes which are not included in the business scope approved by relevant government authority;
- For direct or indirect securities investments within China, or for any other kinds of investments except banks' principal-guaranteed wealth-management products, unless otherwise prescribed by other laws and regulations;
- For issuing RMB entrusted loans directly or indirectly (except those included in the business scope), or for repaying inter-enterprise loans (including advances by the third party), or for repaying bank loans which has been on-lent to third parties;
- For issuing RMB loans to non-affiliated enterprises, unless expressly permitted in the business scope;
- For purchasing or constructing real estate which is not for personal use, in addition to those real estate enterprises.

In addition, SAFE supervises the flow and use of those RMB capital converted from foreign currency capital funds of a foreign-invested company by further focusing on ex post facto supervisions and violations, and the use of the net proceeds from our initial public offering to invest in or acquire any other Chinese companies in China is subject to the provisions under both Circular 19 and Circular 16.

New M&A Regulations and Overseas Listings

On August 8, 2006, six Chinese regulatory agencies, including the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, CSRC and SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the New M&A Rule, which became effective on September 8, 2006 and was amended on June 22, 2009. This New M&A Rule, among other things, includes provisions that purport to require that an offshore special purpose vehicle formed for purposes of overseas listing of equity interests in Chinese companies and controlled directly or indirectly by Chinese companies or individuals obtain the approval of CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

The CSRC approval procedures require the filing of a number of documents with the CSRC and it would take several months to complete the approval process. The application of this new Chinese regulation remains unclear with no consensus currently existing among leading Chinese law firms regarding the scope of the applicability of the CSRC approval requirement.

Our China counsel, GFE Law Firm, has advised us that, based on their understanding of the current Chinese laws and regulations:

- we currently control Jinzheng by virtue of Newater HK acquiring 100% of the equity interests of Jinzheng, which are not regulated by the New M&A Rule. According to the New M&A Rule, when a domestic company or a domestic natural person, through an overseas company established or controlled by it, to acquire a domestic company's equity interest which is related to or connected with it, approval from Ministry of Commerce is required. At the time of our equity interest acquisition, as the acquiree, Jinzheng was not related to or connected with the foreign investor, or the acquirer, Newater HK. Accordingly, we did not need the approval from Ministry of Commerce. In addition, we have received all relevant approvals and certificates required for the acquisition;
- the CSRC approval under the New M&A Rule only applies to overseas listings of SPVs that have used their existing or newly issued equity interest to acquire existing or newly issued equity interest in Chinese domestic companies, or a SPV-domestic company share swap. Newater does not constitute a SPV that is required to obtain approval from the CSRC for overseas listing under the New M&A Rule because there has not been any SPV-domestic company share swap in our corporate history; and
- notwithstanding the above analysis, the CSRC has not issued any definitive rule or interpretation regarding whether offerings like our initial public offering are subject to the New M&A Rule.

Notwithstanding the above opinion, our PRC counsel has further advised us that uncertainties still exist as to how the New M&A Rules will be interpreted and implemented and its opinions summarized above are subject to any new laws, rules, and regulations or detailed implementations and interpretations in any form relating to the New M&A Rules. If the CSRC or other PRC regulatory agencies subsequently determine that prior CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies.

Regulations on Offshore Parent Holding Companies' Direct Investment in and Loans to Their Chinese Subsidiaries

An offshore company may invest equity in a Chinese company, which will become the Chinese subsidiary of the offshore holding company after investment. Such equity investment is subject to a series of laws and regulations generally applicable to any foreign-invested enterprise in China, which include the Foreign Investment Law of the PRC, the Regulation for Implementing the Foreign Investment Law of the PRC, the Measures for Reporting of Foreign Investment Information, the Administrative Provisions on Foreign Exchange in Domestic Direct Investment by Foreign Investors, and the Notice of the State Administration on Foreign Exchange on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment, all as amended from time to time.

Under the aforesaid laws and regulations, the increase of the registered capital and total investment amount of a foreign-invested enterprise is subject to reporting obligations through designated online systems as stipulated under the Measures for Reporting of Foreign Investment Information, and shall register with local authorities if such changes fall within the Administrative Regulations of the Registration of Enterprises, additional approval may be required subject to relevant Chinese laws and regulations.

Shareholder loans made by offshore parent holding companies to their Chinese subsidiaries are regarded as foreign debts in China for regulatory purpose, which is subject to a number of Chinese laws and regulations, including the Chinese Foreign Exchange Administration Regulations, the Interim Measures on Administration on Foreign Debts, the Tentative Provisions on the Statistics Monitoring of Foreign Debts and its implementation rules, the Circular on Full-Coverage Macro-Prudent Management of Cross-Border Financing and the Administration Rules on the Settlement, Sale and Payment of Foreign Exchange.

We may make loans to our Chinese subsidiaries subject to the approval from SAFE or its local counterparts and the limitation on the amount of loans. Pursuant to the Interim Measures on Administration on Foreign Debts, the total amount of foreign loans received by a foreign-invested company shall not exceed the difference between the total investment amount and the amount of registered capital of such foreign-invested company.

In addition, on January 11, 2017, the People's Bank of China, or the PBOC, issued the Circular on Full-Coverage Macro-Prudent Management of Cross-Border Financing, or the PBOC Circular 9, which sets out the statutory upper limit on the foreign debts for PRC non-financial entities, including both foreign-invested companies and domestic-invested companies. Pursuant to the PBOC Circular 9, the foreign debt upper limit for both foreign-invested companies and domestic-invested companies is calculated as twice the net asset of such companies. As to net assets, the companies shall take the net assets value stated in their latest audited financial statement.

However, The PBOC Circular 9 does not supersede the Interim Measures on Administration on Foreign Debts. It provides a one-year transitional period from January 11, 2017, for foreign-invested companies, during which foreign-invested companies, such as WFOE, could adopt their calculation method of foreign debt upper limit based on either the Interim Measures on Administration on Foreign Debts or the PBOC Circular 9. The transitional period ended on January 11, 2018. Upon its expiry, pursuant to the PBOC Circular 9, the PBOC and the SAFE shall reevaluate the calculation method for foreign-invested companies and determine what the applicable calculation method would be.

On March 11, 2020, the PBOC and the SAFE jointly promulgated the Circular on Adjusting the Macro-Prudent Adjustment Parameter for Full-Coverage Cross-Border Financing, or the PBOC Circular 64, which came into effect on the same day. Pursuant to the PBOC Circular 64, the macro-prudent adjustment parameter under the PBOC Circular 9 was adjusted from 1 to 1.25, which means the foreign debt upper limit for both foreign-invested companies and domestic-invested companies as stipulated in the PBOC Circular 9 was also adjusted from twice the net asset to 2.5 times the net asset of such companies, and other matters concerning full-coverage cross-border financing are still subject to the PBOC Circular 9. If we choose to make loans to our Chinese subsidiaries in the coming future based on the foreign debt upper limit as stipulated in both PBOC Circular 9 and PBOC Circular 64, the amount of such loans can be up to 2.5 times the net asset of such specific Chinese subsidiary.

Regulations Relating to Intellectual Property Rights

Patent. Patents in China are principally protected under the Patent Law of China and its implementation rules. The duration of a patent right is either 10 years (utility model or design) or 20 years (invention) from the date of application, depending on the type of patent right.

Copyright. Copyright in China, including computer software copyright, is principally protected under the Copyright Law of China, the Regulation on the Protection of Computer Software (2013 Revision) and other related rules and regulations, collectively the Copyright Laws and Regulations. Under the Copyright Laws and Regulations, for a company, the term of protection for copyright is 50 years from the first publication of its work.

Trademark. Registered trademarks are primarily protected under the Trademark Law of China and its implementation rules. Trademarks are registered with the Trademark Office of the State Administration for Industry and Commerce. Where registration is sought for a trademark that is identical or similar to another trademark that has already been registered or given preliminary examination and approval for use in the same or similar category of commodities or services, the application for registration of such trademark could be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked.

Domain names. Domain names are protected under the Administrative Measures on the Internet Domain Names promulgated by the MIIT. The MIIT is the major regulatory body responsible for the administration of the Chinese Internet domain names, under supervision of which the CNNIC is responsible for the daily administration of .cn domain names and Chinese domain names. MIIT adopts the “first to file” principle with respect to the registration of domain names.

Regulations Relating to Labor

Pursuant to the China Labor Law (2018 Revision), the China Labor Contract Law (2012 Revision) and its implementation rules, a written labor contract is required when an employment relationship is established between an employer and an employee. Other labor-related regulations and rules of China stipulate the maximum number of working hours per day and per week as well as the minimum wages. An employer is required to set up occupational safety and sanitation systems, implement the national occupational safety and sanitation rules and standards, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards.

An employer is obligated to sign an indefinite term labor contract with an employee if the employer continues to employ the employee after two consecutive fixed-term labor contracts, with certain exceptions. The employer also has to pay compensation to the employee if the employer terminates an indefinite term labor contract, with certain exceptions. Except where the employer proposes to renew a labor contract by maintaining or raising the conditions of the labor contract and the employee is not agreeable to the renewal, an employer is required to compensate the employee when a definite term labor contract expires. Furthermore, under the Regulations on Paid Annual Leave for Employees issued by the State Council in December 2007 and effective as of January 2008, an employee who has served an employer for more than one year and less than ten years is entitled to a 5-day paid vacation, those whose service period ranges from 10 to 20 years are entitled to a 10-day paid vacation, and those who have served for more than 20 years are entitled to a 15-day paid vacation. An employee who does not use such vacation time at the request of the employer must be compensated at three times their normal salaries for each waived vacation day.

Pursuant to the Social Insurance Law of the PRC (2018 Revision) and the Interim Regulation concerning the Collection and Payment of Social Insurance (2019 Revision), enterprises are required to register with local social insurance authorities, and generally such registration shall be conducted simultaneously as the incorporation of such enterprises. The collection of social insurance could either be collected by local tax authorities or local social insurance authorities, subject to the regulations and determinations of local governments. Employers are required to pay pension insurance, medical insurance, unemployment insurance, occupational injury insurance, maternity insurance, collectively the Social Insurance, for their employees, while employees are required to pay pension insurance, unemployment insurance, medical insurance themselves, both base on the basic salary and at a rate regulated by relevant laws and rules.

Pursuant to the Regulations on the Administration of Housing Fund (2019 Revision), Chinese companies must register with applicable housing fund management centers and help each of their employees to establish a special housing fund account in an entrusted bank. Both Chinese companies and their employees are required to contribute to the housing funds.

Regulations Relating to Environmental Protection

The Environmental Protection Law (2014 Revision) effectively established the legal framework for environment protection in China. The Environmental Protection Law requires the Ministry of Environmental Protection (the “MEP”), to implement uniform supervision and administration of environmental protection work nationwide and establishes national waste discharge standards. Enterprises producing environmental contamination and other public hazards must incorporate environmental protection work into their planning and establish environmental protection systems.

Through the adoption of the Environmental Impact Assessment Law of China (2018 Revision) and the Rule on Classification for Environmental Impact Assessment of Construction Projects (2017) and partially amended by the Ministry of Ecological Environment in April 2018, the Chinese government established a system to appraise the environmental impact of construction projects and classify the appraisal based on the degree of environmental impact caused by the construction project, a construction unit or an enterprise shall prepare an environmental impact report, an environmental impact statement, or an environmental impact form based upon the varying degrees of environmental impact of the construction projects, such environmental impact report or statement is required to be submitted to the competent environmental protection authority for approval while the environmental impact form only required to be filed with competent authorities.

C. *Organizational Structure.*

Structural Overview

We are a holding company incorporated in the British Virgin Islands that owns all of the outstanding capital stock of Newater HK, our wholly owned Hong Kong subsidiary, Newater HK, in turn, owns all of the outstanding capital stock of our operating subsidiaries Jinzheng and Jinda that are based in Yantai, China and Hainan, China, respectively. On January 25, 2016, and February 5, 2016, respectively, Newater HK entered into an equity transfer agreement and supplementary equity transfer agreement with the shareholders of Jinzheng at the time, Yuebiao Li, Zhuo Zhang, and Yue Zhang, to acquire 100% of the equity interests in Jinzheng.

Organization Structure and Purpose

Newater Technology, Inc. – We formed Newater Technology, our British Virgin Islands holding company, on September 30, 2015.

Newater HK Limited – We formed Newater HK, our wholly owned Hong Kong subsidiary, on November 4, 2015.

Yantai Jinzheng Eco-Technology Co., Ltd. – We formed Jinzheng, our principal operating company in China and wholly owned subsidiary of Newater HK, on July 5, 2012. Jinzheng is registered in the Laishan District of Yantai. Its business scope, includes, the design, development, manufacturing and sale of DTRO membranes and related equipment and the installation of those products.

Yantai Jinzheng Eco-Technology Co., Ltd Xi'an Branch – We formed our Jinzheng-Xi'an on March 27, 2019 in Xi'an City, Shaanxi Province. It mainly engages in design, sale, and installation of DTRO membranes, related equipment and systems for wastewater treatment.

Newater Technology America, Inc. – We formed our wholly owned U.S. subsidiary incorporated in Delaware on April 24, 2019. It mainly engages in design, sale, and installation of DTRO membranes, related equipment and systems for wastewater treatment focusing on the North America market.

Jinda Eco-Technology (Hainan) Co., Ltd – We formed Jinda, a wholly owned subsidiary of Newater HK on April 30, 2019. Its business scope includes the sale and maintenance of water treatment equipment, consulting services for water treatment technology.

Shaanxi Jinyu Zhengde Environmental Engineering Co., Ltd – We formed Jinyu, a wholly owned subsidiary of Jinzheng on June 14, 2019. Its business scope includes wastewater treatment, sales, installation and maintenance of eco-friendly equipment and related accessories and cooling equipment.

Yantai Nuclear-Power R&D Center& Water Treatment Research Institute Co., Ltd – We acquired 70% of the equity interests in Yantai Nuclear-Power from its former shareholders, as of the completion of the equity transfer on July 5, 2019, Jinzheng became a majority shareholder owning 70% of the equity interests in Yantai Nuclear-Power. Its business scope includes the manufacture and sale of eco-friendly equipment, the design, installation and sale of water treatment engineering projects.

Yantai Jincai Eco-Technology Co., Ltd – We formed Jincai, a 40% owned subsidiary on September 26, 2019. Its business scope includes the design, manufacture, sale, installation of reverse osmosis pure water equipment and wastewater treatment equipment and processing, the installation and sale of stainless-steel equipment, eco-friendly equipment and water supply equipment, and refuse cleanup.

Yantai Hengqingyuan Eco-Technology Co., Ltd – We formed Hengqingyuan, a 20% owned subsidiary on July 16, 2019. Its business scope includes the installation of electromechanical equipment, environmental technology development, technical consulting, the sale, maintenance, installation and leasing of purifying equipment, water supply and drainage equipment and general mechanical equipment.

Corporate History

On January 25, 2016, and February 5, 2016, respectively, Newater HK entered into an equity transfer agreement and supplementary equity transfer agreement with the shareholders of Jinzheng at the time, Yuebiao Li, Zhuo Zhang, and Yue Zhang, to acquire 100% of their equity interests in Jinzheng. Pursuant to the terms of the January 25, 2016 equity transfer agreement, Newater HK agreed to pay RMB 20,000,000 for 100% of their equity interests as follows: 1) RMB 11,000,000 to Yuebiao Li for his 55% equity interests in Jinzheng; 2) RMB 8,000,000 to Zhuo Zhang for her 40% equity interests in Jinzheng; and 3) RMB 1,000,000 to Yue Zhang for her 5% equity interests in Jinzheng. Further, pursuant to the terms of the February 5, 2016 supplementary equity transfer agreement the parties agreed that an additional RMB 8,537,365 would be paid for the equity interests in Jinzheng allocated as follows: 1) RMB 4,695,551 to Yuebiao Li; 2) RMB 3,414,946 to Zhuo Zhang; and 3) RMB 426,868 to Yue Zhang.

On March 27, 2016, the company issued 73,000 common shares at \$0.65 per share to the incorporator with total gross proceeds of \$47,450. Further, on March 27, 2016, a total of 8,117,000 shares were issued at \$0.65 per share, to six individuals and seven companies with total cash proceeds of \$5,276,050. On June 6, 2016, Newater Technology, Jinzheng and Newater HK entered in three separate Convertible Debt Investment Agreements with three individuals. Pursuant to the Convertible Debt Investment Agreements the loans from these individuals in the aggregate amount of RMB 20,000,000 were converted into 724,000 common shares of Newater Technology. Furthermore, on June 6, 2016, Newater Technology, Jinzheng and Newater HK entered into a Convertible Debt Investment Agreement with a fourth individual. Pursuant to the Convertible Debt Investment Agreement the loan from this individual in the aggregate amount of RMB 5,000,000 was converted into 275,000 common shares of Newater Technology.

On August 2, 2017, the Company completed its initial public offering on the NASDAQ Capital Market under the symbol of “NEWA”. The Company offered 1,400,000 common shares at \$5 per share. Net proceeds raised by the Company from the initial public offering amounted to \$6,145,325 after deducting underwriting discounts and commissions and other offering expenses. Out of the \$6.1 million net proceeds, \$500,000 was deposited into an escrow account to satisfy the initial \$500,000 in potential indemnification obligations arising during an escrow period of two years following the closing date of August 2, 2017 and was presented as restricted cash, in the accompanying consolidated balance sheets. On August 3, 2017, the Company sold additional 210,000 common shares at \$5 per share. Net proceeds raised by the Company amounted to \$966,000 after deducting underwriting discounts. As a result, the Company raised a total of \$7,111,325 from issuance of common shares in the year ended December 31, 2017.

For our business expansion into other provinces in China, we formed Jinzheng-Xi'an on March 27, 2019, which mainly engages in design, sale, and installation of DTRO membranes, related equipment and systems for wastewater treatment.

To expand our reach into the international market, we established our wholly owned U.S. subsidiary on April 24, 2019. Its main business scope includes design, sale, and installation of DTRO membranes, related equipment and systems for wastewater treatment focusing the North America market.

To further expand our business into southern China, Newater HK recently incorporated a wholly owned subsidiary on April 30, 2019, Jinda, which is based in Hainan, China and is mainly engaged in the sale and maintenance of water treatment equipment, and consulting services for water treatment technology.

On May 25, 2019, Jinzheng entered into separate equity transfer agreements with Yantai Taihai Group Co., Ltd and Beijing Grant Membrane Separation Equipment Co., Ltd, to acquire 10% and 60% of each party's equity interest in Yantai Nuclear-Power, respectively. The equity transfer was completed and registered with the local authority on July 5, 2019 and Jinzheng became the majority shareholder owning 70% of the equity interest in Yantai Nuclear-Power. The main business scope of Yantai Nuclear-Power includes the manufacture and sale of eco-friendly equipment, the design, installation and sale of water treatment engineering projects.

On June 14, 2019, Jinzheng established a wholly owned subsidiary, Jinyu, in Shaanxi province, its main business scope includes wastewater treatment, sales, installation and maintenance of eco-friendly equipment and related accessories and cooling equipment.

On July 16, 2019, Jinzheng formed Hengqingyuan with Yantai Guotai Investment Co., Ltd, of which Jinzheng held 20% of the equity interest in Hengqingyuan, its business scope includes the installation of electromechanical equipment, environmental technology development, technical consulting, the sale, maintenance, installation and leasing of purifying equipment, water supply and drainage equipment and general mechanical equipment.

On September 26, 2019, Jinzheng formed Jincai as a wholly owned subsidiary. In December 2019, Jincai increased its registered capital and which was subscribed by Yantai Caijin Investment Holding Co., Ltd, the change of shareholder was registered with local government on January 15, 2020, since then Jinzheng owned 40% of the equity interest in Jincai. The main business scope of Jincai includes the design, manufacture, sale, installation of reverse osmosis pure water equipment and wastewater treatment equipment and processing, the installation and sale of stainless-steel equipment, eco-friendly equipment and water supply equipment, and refuse cleanup.

D. Property, Plants and Equipment.

Our headquarters is located at No.1 Ruida Road, Laishan District Economic Development Area, Yantai, Shandong Province, People's Republic of China. We currently have six Chinese domestic operating companies. Our facilities are used for manufacturing, sales and marketing, research and development and administrative functions. We own two manufacturing facilities, one office building and a reception office located at our headquarters in Laishan District Economic Development Area, Yantai. One production facility hosts the traditional manufacturing line for membrane modules, and the other facility is for manufacturing and assembling wastewater treatment equipment.

All the other facilities that we currently use are leased. We believe our facilities are adequate for our current needs and we do not believe we will encounter any difficulty in extending the terms of the leases by which we occupy our respective premises. A summary description of our facilities locations follows:

Office	Address	Ownership	Rental Term	Space
The company headquarters office & production shop	No. 1 of Ruida Road, Laishan District Economic Development Area, Yantai, Shandong Province	Owned	July 2008 – July 2058	349,198.58 sq. ft.
The company production shop & warehouse	No. 8, Lande Road, Shengquan Industrial Park, Laishan District Yantai, Shandong Province	Leased	April 2018 – April 2023	10,764 sq. ft.
The company Jinan City, Shandong Province liaison office	Golden Time Square, Building #G, Rooms 809-810, Lixia District, Jinan City, Shandong Province	Leased	July 2019 – June 2020	1,265 sq. ft.
The company Shijiazhuang City, Hebei Province liaison office	NO. 66 Yuhua W Rd, Building #F, Room 1522, Haiyue World, Shijiazhuang City, Hebei Province	Leased	January 2020 – December 2020	624 sq. ft.
The company Inner Mongolia Autonomous Region liaison office	Room 1610, Building #E, Greenland Tengfei Building, Saihan District, Hohhot City, Inner Mongolia Autonomous Region	leased	January 2020 – December 2020	376.74 sq. ft.
The company Xi'an City, Shaanxi Province branch office	No.220 Wenjing Rd, Building #2, Room 12002, Economic Development Area, Xi'an City	leased	December 2019 – November 2021	1,844.5 sq. ft.
The Company Hainan office	F1-1001, Building #A17, Hainan Ecological Software Park, Hainan Province	leased	February 2020 – February 2021	107.63 sq. ft
The Company Beijing office	1003, Commercial building 10, Dawangjing village, Cuigezhuang county, Chaoyang District, Beijing City.	Leased	October 2019 – October 2020	2,111.14 sq. ft

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our audited consolidated financial statements and the related notes included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this annual report.

A. Operating Results.

Overview

We specialize in the development, manufacture and sale of DTRO and DTNF membrane filtration equipment, systems and parts for wastewater treatment, recycling and discharge. We provide technical solutions in engineering support and installation, technical advice and services, and other project related solutions to turn wastewater into valuable clean water. Our expertise in DTRO and DTNF membranes enable us to develop an array of core materials and technologies that can be applied in many ways to solve complex wastewater treatment challenges and to meet our customers' increasingly difficult needs for fluid filtration, separation and purification.

Our proprietary materials and technologies, combined with our ability to engineer and incorporate them into fully integrated systems, leads us to believe that we are one of the leading providers of DTRO and DTNF membranes technology. Our DTRO membrane technology was identified by China's Science and Technology Promotion Center of Ministry of Water Resources as a key technology for turning wastewater into high quality clean water.

Our products can be used across a wide array of markets and applications to convert wastewater into high quality, reusable clean water. We currently primarily serve the waste (garbage), chemical and energy industries. Our extensive customer process knowledge, scientific expertise, and related engineering know-how enable us to provide customized and cost-effective solutions for our customers, with products that are well matched to their needs.

We actively pursue projects and markets in which our products can make a substantial difference to customers. These capabilities also allow us to develop new and innovative products and enter new markets, such as industrial park wastewater, common effluent treatment plants, municipal wastewater, and seawater desalination.

We operate our business in China through our subsidiaries, Jinzheng and Jinda.

The COVID-19 Pandemic

Since late 2019, the epidemic of the novel strain of coronavirus COVID-19 has spread across China and other countries, and has adversely affected businesses and economic activities in the first quarter of 2020 and beyond. The Company followed the restrictive measures implemented in China, by suspending onsite operation until late February 2020, when the Company started to gradually resume normal operation. Consequently, the COVID-19 pandemic may adversely affect the Company's business operations, financial condition and operating results for 2020, including but not limited to material negative impact to the Company's total revenues, slower collection of accounts receivables and significant impairment to the Company's equity investments. Due to the high uncertainty of the evolving situation, the Company has limited visibility on the full impact brought upon by the COVID-19 pandemic and the related financial impact cannot be estimated at this time.

We are monitoring the global outbreak and spread of COVID-19 and taking steps in an effort to identify and mitigate the adverse impacts on, and risks to, our business (including but not limited to our employees, customers, and other business partners) posed by its spread and the governmental and community reactions thereto.

We continue to assess and update our business continuity plans in the context of this pandemic, including taking steps in an effort to help keep our workforces healthy and safe. The spread of COVID-19 has caused us to modify our business practices (including employee travel, employee work locations in certain cases, and cancellation of physical participation in certain meetings, events and conferences), and we expect to take further actions as may be required or recommended by government authorities or as we determine are in the best interests of our employees, customers and other business partners. We are also working with our suppliers to understand the existing and future negative impacts, and to take actions in an effort to mitigate such impacts. Due to the speed with which the COVID-19 pandemic is developing, the global breadth of its spread and the range of governmental and community reactions thereto, there is uncertainty around its duration and ultimate impact; therefore, any negative impact on our overall financial and operating results (including without limitation our liquidity) cannot be reasonably estimated at this time, but the pandemic could lead to extended disruption of economic activity and the impact on our financial and operating results.

Revenues

Our revenues are derived from product sales, such as sales of membrane filtration modules, equipment and systems, project sales (wastewater treatment system projects) and service sales (providing wastewater treatment service to landfill leachate and industrial parks). Revenue consists of the invoiced value for the sales, net of value-added tax ("VAT"), business tax, applicable local government levies, rebates, discounts and returns.

The following factors affect the revenues from our operations.

Maintain our competitive advantages. We actively pursue projects and markets in which our products can make a substantial difference to our customers. We especially target projects in which our integrated wastewater treatment solutions could improve wastewater treatment system outputs and reduce costs. We leverage our engineering and scientific expertise in wastewater management to provide unique and cost-effective solutions for customers. If we fail to maintain our reputation and competitiveness, customers demand for our products, projects and services could decline.

Competition. The market for our products, projects and services is generally competitive. We often compete with many other companies ranging from small regional firms to large international corporations. The degree of competition varies based on region, type of clients and other factors. The number of competitors can vary widely, depending upon technical qualifications, the relative value of the project, geographic location, financial terms, risks associated with the work, and any restrictions placed upon us by the client. Historically, clients have chosen a company by weighing quality, technology used and timeliness of the product/service delivery versus costs to determine which company offers the best value.

We believe that our principal competitors include the following companies, Pall Corporation, Beijing Tiandiren Environmental Protection Technology Co., Ltd, and Rochem Group.

Expansion. We believe that we should continue to expand our business to other regions of China to increase our market share. In 2017, our customers in Beijing, Shandong province and Shaanxi Province accounted for approximately 48%, 32% and 4% of the total sales, respectively. In 2018, approximately 90% of our revenues derived from three geographic markets, with approximately 43%, 33% and 14% of our revenues from customers located in the Shandong Province, Beijing City and Inner Mongolia Autonomous Region, respectively. In 2019, our customers in Beijing, Shandong province, Hainan province and Inner Mongolia Autonomous accounted for approximately 30%, 22%, 7% and 7% of the total sales, respectively. Presently, we intend to expand our business to customers located in Shandong Province, Jiangsu Province and Inner Mongolia Autonomous Region. If we fail to expand to other geographic regions, our revenue growth could slow down.

	2019	2018	2017
Beijing	30%	33%	48%
Shandong	22%	43%	32%
Liaoning	5%		
Shaanxi			4%
Inner Mongolia	7%	14%	
Hainan	7%		
Jilin	6%		
Zhejiang	5%		

Loss of key personnel. Our rapid growth in revenue was derived from our competitive advantage in our products, projects and services. We rely heavily on the expertise and leadership of our senior management to maintain our core competence. The loss of the service of any of our key personnel could adversely affect our business, especially Yuebiao Li, our founder, Chairman and Chief Executive Officer. We have obtained non-compete agreements and confidentiality agreements from our scientists and technical personnel in our research and development and manufacturing departments.

Seasonality. Our business is affected by seasonality. Bidding, procuring contracts and designing projects usually occurs in the first half of the year. Implementation of projects usually occurs in the second half of the year. Therefore, the company realizes significantly more income in the second half of the year (especially in the fourth quarter) than the first half of the year.

Coronavirus pandemic. The Coronavirus pandemic started at the ending of 2019. Up to the filling date, the Coronavirus pandemic in PRC appears to be under control and the Economic activity is back on track. However, there is no assurance that the epidemic will not break out again in PRC before treatments and/or vaccines was widely available.

During China's Spring Festival holiday, Newater actively conducted epidemic prevention, and obtained the government's approval to allow it to officially return to work on February 10, 2020. Newater's fully automated production line allows it to reduce the dependence on human labor and contact, creating a less labor-intensive working environment, which improves the production efficiency, and safety of its workers. Further, the Company believes the fully automated production line helped it return to work in a timely manner after the epidemic, mitigating the loss to its business operations and financial condition.

Our performance depends on PRC's macroeconomic situation. If the coronavirus epidemic leads to a serious recession in PRC's economy, our business performance will inevitably suffer serious adverse effects.

Costs and Expenses

We primarily incur the following costs and expenses:

Costs of revenues. Cost of revenues consists primarily of direct raw materials, direct payroll of workshop staff, utility and supply costs consumed in the manufacturing process, manufacturing labor, depreciation expense and overhead expenses necessary to manufacture finished goods as well as distribution costs such as inbound freight charges. As our customer base continues to grow and we increasingly conduct larger scale projects, we expect our cost of revenues to increase in absolute dollars as we acquire more significant amounts of raw materials and expand our workshop staff to support our continued growth. Cost of revenues from related parties represents the costs incurred from related parties.

Selling, general and administrative expenses. Selling, general and administrative expenses consist primarily of compensation expense for our corporate staff in supporting departments, research and development expenses, communication costs, gasoline, welfare expenses, education expenses, professional fees (including consulting, audit and legal fees), travel and business hospitality expenses. We anticipate that our administrative expenses, particularly those related to support personnel costs, professional fees, as well as Sarbanes-Oxley compliance, will increase.

Income tax provision. We account for income taxes under the provisions of Section 740-10-30 of the FASB Accounting Standards Codification, which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the financial statements or tax returns.

As Newater Technology, Newater HK, Jinyu and Yantai Nuclear-Power had no operating profit or tax liabilities for the years ended December 31, 2019, 2018 and 2017, our income tax expense reflects income tax paid and provided by Jinzheng and Jinda. Jinzheng was granted by four government departments of Shandong Province, including the Department of Science and Technology, Finance Bureau, Shandong Local Taxation Bureau and Shandong Provincial Office of State Administration of Taxation, the “High-Tech Enterprise” designation, qualifying it for a preferential tax rate of 15% for the years ended December 31, 2019, 2018 and 2017. Jinda is not qualified for any preferential tax rate and its applicable tax rate is 25% for the year ended December 31, 2019. We expect income tax expenses to increase as a result of the expiration of these tax benefits, and to thereafter vary each reporting period depending upon taxable income fluctuations and our availability of tax benefits.

The following factors affect our cost of revenues and expense.

Price fluctuation of raw materials. The costs of raw materials is the majority of cost of goods sold. The price of raw materials fluctuates based on suppliers' price, duty and tariffs. Although our current materials supply is stable, we could be impacted by material price fluctuation in coming years.

Prevailing salary levels. Our cost of revenues is impacted by prevailing salary levels. Although we have not been subject to significant wage inflation in China, a significant increase in the market rate for wages could harm our operating results and our operating margin. Our ability to attract, retain, and expand our senior management and our professional and technical staff is an important factor in determining our future success. The market for qualified scientists and engineers is competitive and, from time to time, it may be difficult to attract and retain qualified individuals with the required expertise at a fair wage. An increase in compensation of our scientists and engineers may increase our operating costs.

Depreciation and amortization. Our depreciation and amortization expenses are mainly driven by the net value of machinery equipment, motor vehicles, buildings, land use rights and other items. Depreciation of property, plant and equipment is calculated based on cost, less their estimated residual value, if any, using the straight-line method over estimated useful life of 20 years, 10 years, 5 years and 3 years. Land use rights are amortized over a useful life of 50 years. Any change of the depreciation and amortization accounting policy or impairment of our property may affect our operating results.

Collectability of our accounts receivable. Our balance of net accounts receivable for third parties was \$11,293,625 as of December 31, 2019, representing an increase of \$1,228,778, or 12%, compared with \$10,064,847 as of December 31, 2018. Meanwhile, our revenue for third parties decreased by 9% for the year ended December 31, 2019. The turnover of accounts receivable was getting slower, which raised doubt of cash flow of our business in the future. If the accounts receivable cannot be collected in time, a significant amount of bad debt expense will occur in the coming years, which will affect our operating result significantly.

Results of Operations

For the years ended December 31, 2019, 2018 and 2017.

	For the years ended December 31,		
	2019	2018	2017
Net revenues	\$ 23,716,978	\$ 25,973,963	\$ 16,192,503
Net revenues from related parties	13,857,014	21,066,741	9,146,994
Cost of revenues	20,233,998	20,474,072	17,199,866
Cost of revenues from related parties	1,450,627	5,669,252	-
Gross profit	15,889,367	20,897,380	8,139,631
Gross margin	42%	44%	32%
Selling, general and administrative	10,148,039	12,025,924	5,452,349
Operating income	5,741,328	8,871,456	2,687,282
Interest expense	1,087,051	658,290	242,707
Interest income	(38,328)	(26,632)	(112,592)
Government grant	(946,164)	(627,748)	(513,538)
Investment loss	17,023	-	-
Other expenses (income)	(153,546)	(1,162)	3,956
Income before tax	5,775,292	8,868,708	3,066,749
Income tax provisions	1,463,745	1,657,279	475,818
Net income	\$ 4,311,547	\$ 7,211,429	\$ 2,590,931

Revenues. We are a specialized wastewater treatment company with the goal to turn wastewater into re-useable clean water. For different industries, the types of wastewaters are different. We have to customize our DTRO products and treatment solutions for each client's situation.

Our revenue from third parties was \$23,716,978, \$25,973,963 and \$16,192,503 for the years ended December 31, 2019, 2018 and 2017, respectively, a decrease of \$2,256,985, or 9% from 2018 to 2019 and an increase of \$9,781,460 or 60% from 2017 to 2018. The decrease in sales for the year ended December 31, 2019 was mainly due to the significant decrease in service sales. The revenue of Laixi operation project accounted for a large proportion of the 2018 revenue. In 2019, there was no such operation project that generated as much revenue. Moreover, since we are developing our relationship with a state-owned entity to undertake some projects, to some extent, the percentage of service revenue decreased. Accordingly, we put more resources on our new cooperation model. Our revenue growth in the year 2018 resulted primarily from increased demand for our systems and services. These increases can be evidenced in the total revenue from project sales, number of intermediary contractors, number of end customers, and number of large-scale projects. We achieved service sales of \$4,657,423 for the year ended December 31, 2019, representing a decrease of \$13,705,292, or 75%, comparing to the service sales in 2018. We had \$16,906,709 in project sales for the year ended December 31, 2019, representing an increase of \$10,683,416, or 172%, compared to project sales of \$6,223,293 in 2018. In addition, our product sales were \$2,152,846 for the year ended December 31, 2019, representing an increase of \$764,891 or 55%, comparing to product sales of \$1,387,955 in 2018.

The related parties' revenue of \$13,857,014 for the year ended December 31, 2019 represented a decrease of \$7,209,727, or 34%, compared to the related parties revenue of \$21,066,741 for the year ended December 31, 2018. The significant decrease was attributable to us trying to find revenue from non-related parties, which may decrease the current revenue levels from our related parties. We generated revenue from related parties of \$21,066,741 for the year ended December 31, 2018, representing an increase of \$11,919,747, or 130%, compared to related parties sales of \$9,146,994 for the year ended December 31, 2017. From our experience, to win bids for projects, we need to rely on local intermediate contractors who have the financial and technical resources. Beginning in 2016, we implemented a business strategy to strengthen our project sales through those intermediate contractors. Our strategy has proven to be effective as evidenced by the increase in our project sales figures. Yet, during certain years, project sales can be concentrated on certain contractors thus creating significant influences to our business operation. We achieved related parties project sales of \$13,060,893, \$20,761,803, and \$8,917,627 for the years ended December 31, 2019, 2018 and 2017, respectively, representing a decrease of \$7,700,910, or 37%, and an increase of \$11,844,176, or 133%.

Cost of revenues. Our total cost of revenues decreased to \$21,684,625 by \$4,458,699, or 17%, for the year ended December 31, 2019 compared to cost of revenues of \$26,143,324 for the year ended December 31, 2018. The decrease in cost of revenues directly corresponded to the decrease in revenue during the same year. Our cost of revenues as a percentage of revenue was 58%, 56% and 68% for the years ended December 31, 2019, 2018 and 2017, respectively. Main driver is the implementation of the modular concept in system design and production process, which helps to manage inventory, reduce production lead time and control costs in the manufacturing process.

Our total cost of revenues increased to \$26,143,324 by \$8,943,458, or 52%, for the year ended December 31, 2018 compared to cost of revenues of \$17,199,866 for the year ended December 31, 2017. The increase in cost of revenues directly corresponded to the increase in revenue during the same year.

Our cost of revenues for third parties slightly decreased to \$20,233,998 by \$240,074, or 1%, for the year ended December 31, 2019 compared to cost of revenues of \$20,474,072 for the year ended December 31, 2018.

Our cost of revenues for third parties increased to \$20,474,072 by \$3,274,206, or 19%, for the year ended December 31, 2018 compared to cost of revenues of \$17,199,866 for the year ended December 31, 2017.

Gross margin. Our gross margin decreased to 42% for the years ended December 31, 2019, from 44% for the year ended December 31, 2018.

Our gross margin increased from 32% for the year ended December 31, 2017, to 44% for the year ended December 31, 2018.

Selling, general and administrative expense. Selling, general and administrative expenses were \$10,148,039 for the year ended December 31, 2019, and \$12,025,924 for the year ended December 31, 2018, a decrease of \$1,877,885, or 16%. The decrease in operating expenses is mainly due to lower bonuses paid to administrative personnel and our management team, a decrease in research and development expenses, and a decrease in overseas professional expenses. Payroll expense decreased by \$2,518,417 or 55%, from \$4,571,420 in 2018 to \$2,053,003 in 2019, reflecting the sharp decrease in bonuses for management. Research and development expenses decreased by \$828,167 or 31%, from \$2,654,513 in 2018 to \$1,826,346 in 2019, which was mainly due to the capitalization of research and development expenses to property plant and equipment.

Selling, general and administrative expenses were \$12,025,924 for the year ended December 31, 2018, and \$5,452,349 for the year ended December 31, 2017, an increase of \$6,573,575, or 121%. The increase in operating expenses is mainly due to higher payroll paid to administrative personnel and our management team, an increase in research and development expenses, an increase in domestic and overseas business traveling expenses and an increase in entertainment expense. Research and development expenses increased by \$1,298,865 or 96%, from \$1,355,648 in 2017 to \$2,654,513 in 2018, which was mainly due to the increased number of projects and project size expansion. Travelling expenses increased by \$194,120 or 67%, from \$288,203 in 2017 to \$482,323 in 2018 as there were more travelling expenses for overseas travels. Entertainment expenses increased by \$523,549 or 178%, from \$294,005 in 2017 to \$817,554 in 2018 due to the business expansion. Payroll expense increased by \$2,913,432 or 176%, from \$1,657,988 in 2017 to \$4,571,420 in 2018, which was due to the additional bonus of \$2,806,700 for the senior management and the increased number of employees required to expand our business.

We anticipate that our administrative expenses, particularly those related to support personnel costs, professional fees, as well as Sarbanes-Oxley compliance, will continue to increase as we are a reporting company in the United States.

Income from operations. Our income from operations was \$5,741,328 for the year ended December 31, 2019 and \$8,871,456 for the year ended December 31, 2018. Our operating income as a percentage of total revenues was 15% for the year ended December 31, 2019 and 19% for the year ended December 31, 2018.

Our income from operations was \$8,871,456 for the year ended December 31, 2018 and \$2,687,282 for the year ended December 31, 2017. Our operating income as a percentage of total revenues was 19% for the year ended December 31, 2018 and 11% for the year ended December 31, 2017. The significant increase was mainly due to our increased gross margin, offset by the increased selling, general and administrative expenses.

Income taxes. We incurred income tax expense of \$1,463,745, \$1,657,279 and \$475,818 for the years ended December 31, 2019, 2018 and 2017, respectively. The \$193,534 decrease for the year ended December 31, 2019, compared with 2018, was due to the decreased net income before income tax provision in 2019, offset by increase of the one-time deduction for certain property plant and equipment allowed by China tax law. The \$1,181,461 increase for the year ended December 31, 2018, compared with 2017, was due to increased net income before income tax provisions, offset by the increase of the additional deduction for research and development expenses allowed by China tax law.

Net income. Our net income was \$4,311,547 and \$7,211,429 for the years ended December 31, 2019 and 2018, respectively, representing a decrease of \$2,899,882 or 40%. The significant decrease in net income was a result of decreased net revenues for the year ended December 31, 2019, compared to the year ended December 31, 2018.

Our net income was \$7,211,429 and \$2,590,931 for the years ended December 31, 2018 and 2017, respectively, representing an increase of \$4,620,498, or 178%. The significant increase in net income was a result of increased revenue and the higher gross margin for the year ended December 31, 2018, compared to the year ended December 31, 2017.

B. Liquidity and Capital Resources

Liquidity

For the years ended December 31, 2019, 2018, and 2017

We are expecting to generate additional cash flows in the near term from our installation projects and equipment sales, and from developing new customers, expanding our equipment sales and our sales networks. In March 2020, the World Health Organization or WHO declared COVID-19 a pandemic. Our operating results could be negatively impacted by the COVID-19. Due to the uncertainty surrounding the COVID-19 outbreak, the financial impact related to the outbreak of and response to the coronavirus cannot be reasonably estimated at this time. In assessing our liquidity, we monitor and analyze our cash on-hand and our operating expenditure commitments. Our liquidity needs are to meet our working capital requirements and operating expenses obligations. To date, our management believes that current levels of cash and cash flows from operations will be sufficient to meet our anticipated cash needs for at least the next 12 months from the date of this filing.

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations and otherwise operate on an ongoing basis. On December 31, 2019, our working capital was \$1,343,320, compared to working capital of \$9,276,747 on December 31, 2018.

Our cash and cash equivalents balance on December 31, 2019 totaled \$9,944,765, compared to \$2,461,501 on December 31, 2018. During the year ended December 31, 2019, we had cash provided by operating activities of \$13,291,596, used cash in investing activities of \$4,904,825, and had cash used in financing activities of \$2,791,762. The effect of the prevailing exchange rates on our cash position was in the amount of negative \$124,050.

Our cash and cash equivalents balance on December 31, 2018 totaled \$2,461,501, compared to \$3,118,080 on December 31, 2017. During the year ended December 31, 2018, we had cash used in operating activities of \$2,456,777, used cash in investing activities of \$5,689,660, and had cash provided by financing activities of \$6,674,611. The effect of the prevailing exchange rates on our cash position was in the amount of negative \$404,956.

Net cash provided by operating activities for the year ended December 31, 2019 totaled \$13,291,596. The activities were mainly comprised of net income of \$4,311,547, depreciation and amortization expenses of \$1,549,296, bad debt provision of \$1,243,709, increase in accounts payable and bank acceptance notes to vendors of \$2,839,752, an increase in advance from customers of \$2,630,143, an increase in account payable-related parties of \$1,896,054 an increase in advances from customers - related parties of \$6,733,465, and offset by an increase in accounts receivable of \$1,509,728, an increase in accounts receivable-related parties of \$1,103,104, increase in inventory of \$2,923,465, and an increase in accrued expenses and other payables of \$2,322,199.

Net cash used in operating activities for the year ended December 31, 2018 totaled \$2,456,777. The activities were mainly comprised of an increase of inventories of \$5,762,750, a decrease in accrued expenses and other payables of \$4,481,539, an increase in net accounts receivable from third parties of \$5,327,278, an increase in net related parties receivable of \$1,427,078, an increase in advance to suppliers and other current assets of \$2,108,928, and offset by net income of \$7,211,429, an increase in accounts payable and bank acceptance notes to vendors of \$996,619, an increase in related parties account payable of \$3,269,238, an increase in advances from customers of \$2,420,363, a decrease in related parties deferred cost of revenue of \$1,765,856, the depreciation and amortization of \$558,327, the amortization of debt issuance costs of \$103,772, and bad debt provision of \$280,228.

Net cash used in operating activities for the year ended December 31, 2017 totaled \$3,189,701. The activities were mainly comprised of an increase of inventories of \$4,923,400, an increase in advances to suppliers and other current assets of \$412,955, an increase in net accounts receivable from third parties of \$5,076,425, an increase in deferred cost of revenue of \$657,875, an increase in related parties deferred cost of revenue of \$1,795,222, and offset by net income of \$2,590,931, an increase in accounts payable and bank acceptance notes to vendors of \$2,577,192, an increase in accrued expenses and other payables of \$589,638, an increase in related parties advances from customers of \$719,550, a decrease in net accounts receivable from related parties of \$2,821,621, an increase in depreciation and amortization of \$233,493 and an increase in bad debt provision of \$229,707.

The increase in our cash flows provided by operating activities for the year ended December 31, 2019, compared to cash flow used for the year ended December 31, 2018, primarily resulted from our increased net accounts payable and bank acceptance notes to vendors, and increased advances from customers - related parties, increase in depreciation and amortization expenses, increase in bad debt provision, increase in accrued expense and other payable, and offset by increased inventory, and increased net account receivable both for third parties and related parties and increased advance to suppliers and other current assets.

The decrease in our cash flows used in operating activities for the year ended December 31, 2018, compared to the year ended December 31, 2017, primarily resulted from increased net income, our decreased net deferred cost of revenue for both related parties and third parties, increased accounts payable for related parties, increases in advances from customers for third parties and offset by decreased accrued expenses and other payables, increased net accounts receivable for related parties, increased advances to suppliers and other current assets, increased non-current retentions receivable and increased inventories.

Net cash used in investing activities for the year ended December 31, 2019 totaled \$4,904,825. The activities were mainly comprised of \$2,316,967 used to purchase property, plant and equipment, \$3,015,119 of cash paid for long-term investments, and offset by proceeds from disposal of property, plant and equipment of \$427,261.

Net cash used in investing activities for the year ended December 31, 2018 totaled \$5,689,660. The activities were mainly comprised of \$5,511,732 spent to purchase property, plant and equipment and \$200,000 as payment for deposit on the acquisition of subsidiary.

Net cash used in investing activities for the year ended December 31, 2017 totaled \$1,479,400. The activities were primarily comprised of \$1,482,360 spent to purchase property, plant and equipment, \$1,236,490 advanced to third parties, and offset by repayments from third parties of \$1,236,490.

We spent \$3,194,765 less in 2019 in purchasing property, plant and equipment than the year ended December 31, 2018, and received \$405,189 more from disposal of property, plant and equipment. However, we spent \$3,015,119 in investing in long-term investments in Hengqingyuan and Jincai Eco-Technology Co., Ltd. As a result, we used \$784,835 less for the year ended December 31, 2019 in our investing activities than for the year ended December 31, 2018.

We spent \$4,029,372 more than in 2017 in purchasing property, plant and equipment than for the year ended December 31, 2018. As a result, we used \$4,210,260 more in the year ended December 31, 2018 than in our investing activities for the year ended December 31, 2017.

For the year ended December 31, 2019, net cash used in financing activities was \$2,791,762. The activities were mainly comprised of repayment of loans due within one year of \$8,046,350, repayment of long-term loans of \$7,736,415, offset by proceeds from loans due within one year of \$7,454,711 and proceeds from long-term loans of \$6,376,169.

For the year ended December 31, 2018, net cash provided by financing activities was \$6,674,611. We received long-term loans of \$8,631,493, loans due within one year of \$11,493,557, offset by repayments of loans of \$12,682,819, the payment of debt issuance costs of \$284,219 and payment of deposit on loan agreement of \$473,698.

For the year ended December 31, 2017, net cash provided by financing activities was \$11,893,205. We received these funds from issuances of common shares of \$7,111,325, borrowings from third parties of \$8,805,683, offset by repayment to related parties of \$739,973, and repayment of loan within one year of \$3,283,830.

For the year ended December 31, 2019, net cash used in financing activities was \$2,791,762, compared with net cash provided by financing activities of \$6,674,611 for the year ended December 31, 2018. We repaid long term loan of \$7,005,820 more in 2019, and received cash from loans due within one year and long-term loans of \$4,038,846 and \$2,255,324 less in 2019, offset by we repaid loans due within one year of \$3,905,874 less in 2019.

We received \$5,218,594 less than the year of 2017 in financing activities for the year ended December 31, 2018. We received proceeds of \$2,687,874 more than in 2017 from loans due within one year, and received \$8,631,493 more than the year of 2017 in proceeds from long-term loans for the year ended December 31, 2018. However, we repaid \$8,668,394 and \$730,595 more than the year 2017 for loans due within one year and long-term loans, respectively.

Other than the Chinese government's stricter policies on pollution control and the growing demand for wastewater reuse across many industries, both of which we believe may increase our liquidity if they continue, we are not aware of any trends or any demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in our liquidity increasing or decreasing in any material way.

For 2020, we expect our main growth will be from our wastewater treatment business in China. The demand for our products, projects and services appears to be strengthening, from which we expect to generate more positive cash flow.

Our long-term future capital requirements will depend on many factors, including cash inflow from our revenue, the timing and extent of our spending to support the maintenance and growth of our operations, the expansion of our sales and the continued market acceptance of our products, projects and services. Compared to \$30,258,610 short-term liability outstanding as of December 31, 2018, we had \$45,305,700 short-term liability outstanding as of December 31, 2019. Our total liability increased for the year of 2019 due to increase in acquisition of property, plant and equipment and increase in prepayment made by customers. We mainly relied on proceeds from borrowings with third parties, and cash inflow from revenue to support our operations for the year ended December 31, 2019. As a fast-growing company, our management and finance team monitors cash flow on a daily basis and is actively taking actions to improve on the overall health of our cash flow.

The COVID-19 Pandemic. On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical areas in China in which the Company operates. Consequently, the COVID-19 pandemic may adversely affect the Company’s business operations, financial condition and operating results for 2020, including but not limited to material negative impact to the Company’s total revenues, slower collection of accounts receivables and significant impairment to the Company’s equity investments. Due to the high uncertainty of the evolving situation, the Company has limited visibility on the full impact brought upon by the COVID-19 pandemic and the related financial impact cannot be estimated at this time.

Regulatory Restrictions on Capital Injections

We are required to comply with the following Chinese regulations regarding capital injections to foreign-invested enterprises.

Chinese regulations relating to investments in offshore companies by Chinese residents. SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Financing and Round trip Investment through Offshore Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014. SAFE Circular 37 requires Chinese residents to register and update certain investments in companies incorporated outside of China with their local SAFE branch. SAFE also subsequently issued various guidance and rules regarding the implementation of SAFE Circular 37, which imposed obligations on Chinese subsidiaries of offshore companies to coordinate with and supervise any Chinese-resident beneficial owners of offshore entities in relation to the SAFE registration process.

We may not be aware of the identities of all of our beneficial owners who are Chinese residents. We do not have control over our beneficial owners and cannot assure you that all of our Chinese -resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules. The failure of our beneficial owners who are Chinese residents to register or amend their SAFE registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or the failure of future beneficial owners of our Company who are Chinese residents to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject such beneficial owners or our Chinese subsidiaries to fines and legal sanctions, which may be substantial. Failure to register may also limit our ability to contribute additional capital to our Chinese subsidiaries and limit our Chinese subsidiaries’ ability to distribute dividends to our Company. These risks may have a material adverse effect on our business, financial condition and results of operations.

China regulates loans to and direct investment in Chinese entities by offshore holding companies and there is governmental control of currency conversion. We are an offshore holding company conducting our operations in China through our wholly owned subsidiary Jinzheng. As an offshore holding company, we may make loans and additional contributions to Jinzheng subject to approval from government authorities and RMB 40,000,000 limitations on amount.

Any loan to Jinzheng, which is treated as a foreign-invested enterprise under Chinese law, is subject to Chinese regulations and foreign exchange loan registrations. In January 2003, the China State Development and Reform Commission, SAFE and Ministry of Finance jointly promulgated the Circular on The Interim Provisions on the Management of Foreign Debts, or the Circular 28, limiting the total amount of foreign debt a foreign-invested enterprise may incur to the difference between the amount of total investment approved by the Ministry of Commerce or its local counterpart for such enterprise and the amount of registered capital of such enterprise, and requiring registration of any such loans with SAFE. As of December 31, 2019, the amount of approved total investment of Jinzheng was \$14,353,792 (RMB 100,000,000) and registered capital was \$14,353,792 (RMB 100,000,000), which means Jinzheng currently needs to reapply for an increased investment amount if it requires more capital in the future.

We may choose to finance Jinzheng by means of capital contributions. These capital contributions must be approved by the Ministry of Commerce or its local counterpart. In March 2015, SAFE issued the Circular Concerning the Reform of the Administration of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular No.19, which became effective in June 2015. SAFE Circular No.19 regulates the conversion by a foreign-invested enterprise of foreign currency registered capital into RMB by restricting how the converted RMB may be used. Furthermore, SAFE promulgated a circular in June 2016, SAFE Circular No.16, which further revises some clauses in the SAFE Circular No.19. SAFE Circular No. 19 and No.16 provide that the capital-account foreign exchange incomes of a domestic enterprise shall not be used for expenditures that are forbidden by relevant laws and regulations, for purposes that are not included in the business scope approved by the applicable government authority, shall not be used for direct or indirect equity investments within China or for any other kind of investment except principal-guaranteed wealth-management products, unless otherwise prescribed by other laws and regulations, shall not be used for issuing RMB entrusted loans (except included in the business scope approved by the applicable government authority or issuing RMB entrusted loans to affiliated enterprises), repaying inter-enterprise loans, repaying bank loans which has been refinanced to third parties, issuing RMB loans to non-affiliated enterprises unless expressly permitted in the business scope and shall not be used to purchase real estate that is not for personal use except if the company is a real estate enterprise. In addition, SAFE supervises the flow and use of the RMB capital converted from foreign currency registered capital of a foreign-invested company by further focusing on ex post facto supervision and violations. These two circulars may limit our ability to use the net proceeds from our initial public offering to invest in or acquire any other Chinese companies in China, which may adversely affect our liquidity and our ability to fund and expand our business in China.

Capital Resources

As of December 31, 2019 and 2018

The following table provides selected balance sheets comparisons as of December 31, 2019 and December 31, 2018:

	December 31,		Variance	%
	2019	2018		
ASSETS				
Current assets				
Cash and cash equivalents	\$ 9,944,765	\$ 2,461,501	\$ 7,483,264	304%
Restricted cash, current portion	4,021,177	6,033,482	(2,012,305)	-33%
Accounts receivable, net	11,293,625	10,064,847	1,228,778	12%
Accounts receivable - related parties, net	2,392,087	1,948,009	444,078	23%
Notes receivable	360,505	6,999	353,506	5051%
Inventories	13,715,369	13,762,959	(47,590)	0%
Deposit-related party	-	10,180	(10,180)	-100%
Deferred cost of revenue	221,737	343,090	(121,353)	-35%
Advances to suppliers and other current assets, net	4,699,755	4,904,290	(204,535)	-4%
Total current assets	46,649,020	39,535,357	7,113,663	18%
Long-term investment	2,997,419	-	2,997,419	100%
Retentions receivable, non-current	734,140	344,856	389,284	113%
Property, plant and equipment, net	24,611,862	18,753,340	5,858,522	31%
Land use rights, net	2,008,096	2,078,240	(70,144)	-3%
Operating lease right-of-use assets, net	141,016	-	141,016	100%
Deferred tax assets	-	604,064	(604,064)	-100%
Deposit on loan agreement	918,643	436,275.00	482,368	111%
Total assets	\$ 78,060,196	\$ 61,752,132	\$ 16,308,064	26%
LIABILITIES				
Accounts payable and bank acceptance notes to vendors	\$ 8,099,529	\$ 5,353,538	\$ 2,745,991	51%
Accounts payable - related parties	5,225,004	3,389,148	1,835,856	54%
Loans due within one year	11,809,449	10,867,111	942,338	9%
Advances from customers	5,522,913	2,953,595	2,569,318	87%
Advances from customers - related parties	7,254,968	586,719	6,668,249	1137%
Income tax payables	322,419	732,699	(410,280)	-56%
Operating lease liabilities, current	56,852	-	56,852	100%
Deferred income	43,061	-	43,061	100%
Accrued expenses and other payables	6,971,505	6,375,800	595,705	9%
Total current liabilities	45,305,700	30,258,610	15,047,090	50%
Deferred Income, non-current	43,061	-	43,061	100%
Deferred tax liabilities	288,687	-	288,687	100%
Operating lease liabilities, non-current	68,420	-	68,420	100%
Long-term loans less current portion and unamortized debt issuance costs	1,377,217	4,449,889	(3,072,672)	-69%
Total liabilities	\$ 47,083,085	\$ 34,708,499	\$ 12,374,586	36%

We maintain cash and cash equivalents in mainland China and Hong Kong. At December 31, 2019 and 2018, bank deposits were as follows:

Country	December 31,	
	2019	2018
China (mainland)	\$ 9,272,603	\$ 2,435,065
China (offshore bank account)	634,818	26,436
Total	<u>\$ 9,907,421</u>	<u>\$ 2,461,501</u>

An important proportion of our cash balances at December 31, 2019 and 2018 are in the form of RMB and held in bank accounts at financial institutions located in China. Cash held in banks in China is not insured. In 1996, the Chinese government introduced regulations relaxing restrictions on the conversion of the RMB; however, restrictions still remain, including restrictions on foreign-invested entities. Foreign-invested entities may only buy, sell or remit foreign currencies after providing valid commercial documents at only those banks authorized to conduct foreign exchanges. Furthermore, the conversion of RMB for capital account items, including direct investments and loans, is subject to China government approval. Chinese entities are required to establish and maintain separate foreign exchange accounts for capital account items. We cannot be certain Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the RMB, especially with respect to foreign exchange transactions. Accordingly, cash on deposit in banks in China is not readily deployable by us for use outside of China.

Cash and cash equivalents

As of December 31, 2019, cash and cash equivalents were \$9,944,765, compared to \$2,461,501 at December 31, 2018. The components of net cash flow of positive \$5,470,959, negative \$1,876,782 and positive \$7,447,077 for the years ended December 31, 2019, 2018 and 2017, are reflected below.

	Years Ended December 31,		
	2019	2018	2017
Net cash provided by (used in) operating activities	\$ 13,291,596	\$ (2,456,777)	\$ (3,189,701)
Net cash used in investing activities	(4,904,825)	(5,689,660)	(1,479,400)
Net cash provided by (used in) financing activities	(2,791,762)	6,674,611	11,893,205
Exchange rate effect on cash	(124,050)	(404,956)	222,973
Net cash inflow (outflow)	<u>\$ 5,470,959</u>	<u>\$ (1,876,782)</u>	<u>\$ 7,447,077</u>

Restricted cash

The current portion of restricted cash includes cash deposits pledged in exchange for guarantee service provided by third parties in the amount of \$33,148, cash pledged for bank acceptance notes in the amount of \$488,029, and certificate of deposits of \$3,500,000 in Newater HK's offshore bank account pledged for the short-term loan of \$2,961,307 (RMB 21,000,000) from Industrial and Commercial Bank of China. Also see Note 11 for details on the loan. As of December 31, 2019 and 2018, the Company had current portion of restricted cash of \$4,021,177 and \$6,033,482, respectively.

As of December 31, 2017, the Company had non-current portion of restricted cash of \$500,000 which was held as security in an escrow account pursuant to an escrow indemnification agreement in connection with the Company's initial public offering to satisfy the potential indemnification obligations for an escrow period of two years following the closing date of the Company's initial public offering on August 2, 2017. As of December 31, 2018, the balance was reclassified to restricted cash, current. On August 5, 2019, the restricted cash of \$500,000 was released.

Accounts receivable, net

Accounts receivable, net as of December 31, 2019 was \$11,293,625, an increase of \$1,228,778, or 12%, compared to \$10,064,847 as of December 31, 2018. This increase resulted primarily from the fact that our account receivable turnover was slower than 2018. Which means more time and more resource was spent and invested to collect our account receivable in 2019.

Advance to suppliers and other current assets, net

As of December 31, 2019 and 2018, advances to suppliers and other current assets consisted of the following:

	December 31, 2019	December 31, 2018
VAT-input	\$ 69,388	\$ 447,766
Deposits	294,242	1,232,632
Prepaid expenses	1,017,531	368,586
Others	72,450	592,898
Total other current assets	1,453,611	2,641,882
Advances to suppliers	3,776,962	2,322,685
Total	5,230,573	4,964,567
Less: allowance for doubtful accounts	(530,818)	(60,277)
Advances to suppliers and other current assets, net	\$ 4,699,755	\$ 4,904,290

Other current assets include the value added tax pending for deduction and verification, advances to employees for business travel and other miscellaneous receivables such as utility fees, social insurance, personal income tax paid in advance on behalf of employees, prepayments made to service providers and property, plant and equipment suppliers and deposits, which include guarantee deposits, rent deposits and security deposits for bidding customer projects.

Inventories

As of December 31, 2019, our inventory balance was \$13,715,369, a decrease of \$47,590, compared to \$13,762,959, as of December 31, 2018.

	December 31, 2019	December 31, 2018
Raw materials	\$ 4,828,273	\$ 5,029,535
Work in process	8,742,220	8,586,643
Finished goods	144,876	146,781
	13,715,369	13,762,959
Less: write-down of inventories	-	-
Inventories	\$ 13,715,369	\$ 13,762,959

Deferred cost of revenue

As of December 31, 2019 and 2018, our balance of deferred cost of revenue totaled \$221,737 and \$343,090, respectively.

The Company's cost of revenues primarily consists of (i) materials and equipment costs, (ii) compensation and related overhead expenses for personnel involved in the customization of its products, delivery, installation and maintenance and services ("compensation and overhead costs"), (iii) contractor costs, and (iii) depreciation of equipment used in operations.

For product revenues and project revenues, all costs associated with the sales are expensed when revenues are recognized. For service revenues, when revenue is recognized over time in accordance with the Company's revenue recognition policies, total costs are deferred and amortized over the same period that associated service revenue is recognized. The costs incurred but not expensed yet are recognized as "Deferred cost of revenue" in the accompanying consolidated balance sheets.

Property, plant and equipment, net

Net property, plant and equipment as of December 31, 2019 were \$24,611,862, an increase of \$5,858,522 compared to \$18,753,340, as of December 31, 2018. The significant increase was due to the construction of our new headquarter and manufacturing factory.

	December 31, 2019	December 31, 2018
Machinery equipment	\$ 9,860,468	\$ 1,880,505
Electronic equipment	245,366	167,618
Office equipment	289,473	156,996
Motor vehicles	1,057,208	1,612,293
Buildings	10,666,163	3,922,383
Computer software	108,105	92,336
Kitchen and cookware	111,010	-
Construction in progress	465,217	10,238,835
Leasehold improvements	74,762	75,745
Membrane cushion	390,660	216,901
Wastewater treatment system, except for membrane cushion	3,348,847	1,289,780
Total property, plant and equipment	<u>26,617,279</u>	<u>19,653,392</u>
Less: accumulated depreciation	(2,005,417)	(900,052)
Property, plant and equipment, net	\$ 24,611,862	\$ 18,753,340

Depreciation expense for the years ended December 31, 2019, 2018 and 2017, was \$1,505,747, \$512,333 and \$188,995, respectively.

Land use rights, net

As of December 31, 2019 and 2018, land use rights consisted of the following:

	December 31, 2019	December 31, 2018
Cost	\$ 2,158,848	\$ 2,187,229
Less: accumulated amortization	(150,752)	(108,989)
Land use rights, net	\$ 2,008,096	\$ 2,078,240

Amortization expense for the years ended December 31, 2019, 2018 and 2017 was \$43,549, \$45,994 and \$44,498, respectively.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our audited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these audited consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We evaluate our estimates on an ongoing basis, including those related to revenue recognition and income taxes. We base our estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making the judgments we make about the carrying values of our assets and liabilities that are not readily apparent from other sources. Because these estimates can vary depending on the situation, actual results may differ from the estimates.

The critical accounting policies summarized in this section are discussed in further detail in the notes to the audited consolidated financial statements appearing elsewhere in this annual report. Management believes that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about our operating results and financial condition.

Revenue Recognition

The Company derives its revenues from: (1) sale of products such as water purifying membranes and water purification equipment (“product revenues”); (2) sale of water purifying installation projects (“project revenues”); and (3) providing wastewater treatment services such as landfill leachate treatment and purification (“service revenues”).

Products Revenues

Revenue for sale of products is derived from contracts with customers, which primarily include the sale of water purifying equipment accessories. The Company’s sales arrangements do not contain variable consideration. The Company recognizes revenue at a point in time based on management’s evaluation of when performance obligations under the terms of a contract with the customer are satisfied and control of the products has been transferred to the customer. For vast majority of the Company’s product sales, the performance obligations and control of the products transfer to the customer when products are delivered and customer acceptance is made.

Project Revenues

The general contract terms of water purifying installation projects include project management, timeframe of the project, payment terms, rights and obligations of parties, acceptance criteria, and liability for breach of contract.

The Company considers these promised goods and services as one performance obligation since its customer cannot benefit from a separate promised goods or service until combining them as a bundle of goods and series that is distinct.

Revenue is recognized when performance obligation under the terms of a contract with the customer are satisfied and control of the products has been transferred to the customer, which normally occurs when either (i) the Company has previously demonstrated that the equipment meets the specified criteria based on either seller or customer-specified objective criteria or (ii) upon formal acceptance received from the customer if the equipment has not been previously demonstrated to meet customer-specified objective criteria.

The Company usually provides free after-sales service under project revenues, which includes warranty, technical support and training for a period ranging from one to two years. The warranty doesn’t constitute a separate performance obligation since it is standard warranty to assure the project will function as expected. The actual after-sales expense was \$467,056, \$275,520 and \$122,737 for the years ended December 31, 2019, 2018 and 2017, respectively.

Service Revenues

Service revenues are derived from the contracts with customers where the Company acts as a solution provider and purifies wastewater for customers. The general contract terms of wastewater treatment service include operation management, timeframe of the service, pricing and payment terms, rights and obligations of parties, testing criteria, and liability for breach of contract.

The term of pricing and payment stipulated in the contract are fixed.

The Company recognizes service revenues as the performance obligations satisfied over time. Specifically, the revenues have been recognized based on the volume of wastewater purified.

Revenue consists of the invoiced value for the sales net of value-added tax (“VAT”), business tax, applicable local government levies, rebates, discounts and returns.

The Company chooses its customers with scrutiny and keeps records of collection of receivables. Receivables from customers with solid credit condition and history are considered probable to be collected.

There were no sales returns and allowances for the years ended December 31, 2019, 2018 and 2017. The Company does not provide unconditional right of return, pricing protection or any other concessions to its customers.

In accordance with ASC 606, the Company disaggregates revenue from contracts with customers by revenue stream. The Company determined that disaggregating revenue into these categories meets the disclosure objective in ASC 606 which is to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by regional economic factors. Refer to Note 19 for information regarding revenue disaggregation by revenue stream.

Deferred revenue is recorded when consideration is received from a customer prior to transferring goods to the customer under the terms of a sales contract.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances. Estimates and assumptions of future events and their effects cannot be perceived with certainty and, accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Significant estimates and assumptions by management include, among others, useful lives and impairment of long-lived assets, allowance for doubtful accounts, valuation of inventories and income taxes including the valuation allowance for deferred tax assets. While we believe that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from those estimates. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary.

Fair Value of Financial Instruments

For certain of our financial instruments, including cash and cash equivalents, current portion of restricted cash, accounts receivable, notes receivables, inventories, advances to suppliers and other current assets, accounts payable and bank acceptance notes to vendors, loans due within one year, advances from customers, and accrued expenses and other payables, the carrying amounts approximate their fair values due to the short maturities.

Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated. It is not, however, practical to determine the fair value of amounts due from/to related parties due to their related party nature.

Foreign Currency Translation

Our consolidated financial statements are presented in United States dollar, which is our reporting currency. The functional currency of Newater Technology and Newater HK is the United States dollar. The functional currency of Jinzheng is RMB. For Jinzheng, results of operations and cash flows are translated at average exchange rates during the year, assets and liabilities are translated at the unified exchange rate at the end of the year, and equity is translated at historical exchange rates. The resulting translation adjustments are included in determining other comprehensive income. Transaction gains and losses are reflected in the consolidated statements of income and comprehensive income. Essentially all Company's assets and operating activities are held or occur within China. So the loss from foreign currency translation does not represent any losses from actual transactions.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses". The standard, including subsequently issued amendments (ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10 and ASU 2019-11), requires a financial asset measured at amortized cost basis, such as accounts receivable and certain other financial assets, to be presented at the net amount expected to be collected based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and requires the modified retrospective approach. Early adoption is permitted. The Company is evaluating the impact of this guidance on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12 - Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This ASU provides an exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. This update also (1) requires an entity to recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, (2) requires an entity to evaluate when a step-up in the tax basis of goodwill should be considered part of the business combination in which goodwill was originally recognized for accounting purposes and when it should be considered a separate transaction, and (3) requires that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The standard is effective for the Company for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In February 2020, the FASB issued ASU 2020-02, "Financial Instruments – Credit Losses (Topic 326) and Leases (topic 842) Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (topic 842)". This ASU provides guidance regarding methodologies, documentation, and internal controls related to expected credit losses. This ASU is effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. The Company is evaluating the impact of this guidance on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "*Fair Value Measurement (Topic 820), – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement,*" which makes a number of changes meant to add, modify or remove certain disclosure requirements associated with the movement amongst or hierarchy associated with Level 1, Level 2 and Level 3 fair value measurements. The amendments in this Update modify the disclosure requirements on fair value measurements based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, including the consideration of costs and benefits. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments are effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the potential impacts of ASU 2018-13 on its consolidated financial statements.

Impact of Inflation

We do not believe the impact of inflation on our Company is material. Our operations are in China and China's inflation rates have been relatively stable in the last three years: 3.0% in 2019, 3.13% in 2018, and 2.0% in 2017.

Impact of Foreign Currency Fluctuations

We do not believe the impact of foreign currency fluctuations on our Company is material. Regarding purchase of raw materials, we are subject to commodity price risks arising from price fluctuations in the market prices of the raw materials. We have generally been able to pass on cost increases through price adjustments. However, the ability to pass on these increases depends on market conditions influenced by the overall economic conditions in China.

We do not have material export sales and almost all of our revenue was derived from our domestic sales.

We have not had any foreign currency investments hedged by currency borrowings or other hedging instruments. We manage our price risks through productivity improvements and cost-containment measures.

C. Research and Development, Patent and Licenses, etc.

Please refer to Item 4 Subparagraph B, "Information on the Company—Business Overview—Research and Development" and "—Intellectual Property Rights."

D. Trend Information.

Based on our experience and observations of the business in which we operate, we believe the following trends are likely to affect our industry and, as a result, our Company, if they continue in the future.

- Demand for water treatment systems has an inverse relationship to the availability and quality of water resources worldwide. As China's clean water resources become scarcer, the cost of water goes up, which is driving the trend toward industrial water reuse. The increased demand and investment in wastewater treatment system will benefit our continued future growth.
- Regulatory mandates and the desire to maximize cost savings are the primary drivers of water reclamation efforts in China. In April 2015, the Chinese State Council issued the Water Ten Plan. This plan has demonstrated the Chinese government's strong commitment for preserving water and recycling wastewater. The cost of water (acquisition, handling, discharge, and energy costs) is on the rise. Many industrial plants are looking to reduce the overall expense of water treatment, whether it is through acquisition costs, discharge fees, or energy costs to handle water. Water reuse provides customers with a significant opportunity to cut costs. We believe that our membrane technology offers industrial water users creative ways to clean their wastewater output or reuse it as clean water in the production process.
- While we continue to target significant market opportunities that we believe are still available in Northern and Eastern China, we are also looking for opportunities in other regions of China. Presently, we intend to expand our business to customers located in Shandong Province, Liaoning Province, Jiangsu Province, Beijing City, and Inner Mongolia Autonomous Region.
- Currently, we have customers for our business primarily in the waste (garbage), chemical and energy industries. We hope to expand our customer base in the future to industrial park wastewater treatment, municipality wastewater recycling, and seawater desalination industries.
- We believe that competition in the wastewater treatment market is going to become more intense, and consolidation is going to prevail in the near future. It is possible that competition in the form of new competitors or alliances, joint ventures or consolidation among existing competitors may put significant pressure on our ability to increase market share.

E. Off-Balance Sheet Arrangements.

Under SEC regulations, we are required to disclose off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, such as changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. An off-balance sheet arrangement means a transaction, agreement or contractual arrangement to which any entity that is not consolidated with us is a party, under which we have:

- Any obligation under certain guarantee contracts,
- Any retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets,
- Any obligation under a contract that would be accounted for as a derivative instrument, except that it is both indexed to our stock and classified in shareholder equity in our statement of financial position, and
- Any obligation arising out of a material variable interest held by us in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or engages in leasing, hedging or research and development services with us.

We do not have any off-balance sheet arrangements that we are required to disclose pursuant to these regulations. In the ordinary course of business, we enter into operating lease commitments, and other contractual obligations. These transactions are recognized in our financial statements in accordance with generally accepted accounting principles in the United States.

F. Tabular Disclosure of Contractual Obligations.

We have certain potential commitments that include future estimated payments. Changes in our business needs, cancellation provisions, changing interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments.

The Company leases facilities, including old office and old factory, with expiration dates between June 2017 and December 2018. The Company did not rent the old office from December 25, 2017 and continued to rent the old factory until April 21, 2019 according to the rent contract. Rental expenses for the years ended December 31, 2019, 2018 and 2017 were \$102,458, \$133,121 and \$111,893, respectively.

G. Safe Harbor.

See "Forward-Looking Statements."

Item 6. Directors, Senior Management and Employees**A. Directors and Senior Management.****MANAGEMENT**

The following table sets forth our executive officers and directors, their ages and the positions held by them:

Name	Age	Position	Appointed
Yuebiao Li ⁽¹⁾⁽²⁾	47	Chief Executive Officer and Chairman of the Board	June, 2016
Zhuo Zhang ⁽¹⁾⁽²⁾	43	Chief Financial Officer and Director	June, 2016
Hengtong Li ⁽¹⁾⁽³⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	56	Director	June, 2016
Zhicun Chen ⁽¹⁾⁽³⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	47	Director	June, 2016
Yan Shen ⁽¹⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	50	Director	June, 2016

(1) The individual's business address is c/o Yantai Jinzheng Eco-Technology Co., Ltd. 8 Lande Road, Laishan District, Yantai, Shandong China.

(2) Class C director whose term expires at the 2022 succeeding annual meeting of shareholders.

(3) Class B director whose term expires at the 2021 succeeding annual meeting of shareholders.

(4) Class A director whose term expires at the 2020 annual meeting of shareholders.

(5) Member of audit committee.

(6) Member of compensation committee.

(7) Member of nominating committee.

Yuebiao Li. Mr. Li has served as the Chief Executive Officer and Chairman of Newater Technology since June 2016. Mr. Li co-founded Jinzheng in 2012 and has served as Jinzheng's Chief Executive Officer since July 2012. Mr. Li has also served as Jinzheng's executive director since February 2016. Mr. Li served as General Manager of Daqing Jiejingyuan Water Treatment Equipment Sales Co., Ltd. from 2005 until 2012 and had previously served as Sales Manager from 2000 until 2005. Mr. Li received his associate degree in accounting from Heilongjiang University. Mr. Li was nominated as a director because his experience serving in executive positions at companies operating in the water treatment industry and has extensive knowledge, experience and relationships in China's water treatment industry.

Zhuo Zhang. Ms. Zhang has served as the Chief Financial Officer and Vice Chairman of Newater Technology since June 2016. Ms. Zhang co-founded Jinzheng in 2012 and has served as Jinzheng's Chief Financial Officer since July 2012. From July 2012 to February 2016, Ms. Zhang also served as executive director and general manager of Jinzheng. Ms. Zhang has served as general manager of Jinzheng since February 2016. From September 2005 through May 2012, Ms. Zhang served as Finance Manager of Daewoo Shipbuilding Ocean (Shandong) Co., Ltd., a subsidiary incorporated in Shandong province by Seoul based shipbuilder DSME. From May 2000 through September 2005, Ms. Zhang was Finance Manager of Doosan Engineering Machinery (China) Co, Ltd., a South Korean owned machine tool company in Shandong Province. Ms. Zhang holds a bachelor's degree in accounting from Shandong Technology and Business University. Ms. Zhang was nominated as a director because of her extensive operating, accounting, internal control and financial knowledge of the Company, which gives her detailed understanding of the complexities of our operations.

Hengtong Li. Mr. Li has served as an independent director of Newater Technology since June 2016. Since 2000, Mr. Li has been the Deputy Director of Yantai Huansheng Tax Accounting Firm. Between 1995 and 2000, Mr. Li served as General Manager of Yantai Ziguang Technology Co., Ltd. Between 1991 and 1995, Mr. Li served as Chief Financial Officer of Yantai Chunsheng Knitwear Co., Ltd. Mr. Li is a member of the Chinese Institute of Certified Public Accountants (CICPA), and a member of Certified Tax Agents (CTA). Mr. Li holds a bachelor's degree in management engineering from Qingdao University. Mr. Li was nominated as a director because of his experience in management, tax and accounting.

Zhicun Chen. Ms. Chen has served as an independent director of Newater Technology since June 2016. Since 2013, Ms. Chen has been the Chief Financial Officer of Achilles Shanghai International Trading Co., Ltd. Between 2008 and 2013, Ms. Chen served as Chief Financial Officer of Shanghai Celco Electronic Co., Ltd. Between 2000 and 2008, Ms. Chen worked as head of finance and accounting department of the Forestry Bureau of the Great Khingan Mountain. Ms. Chen is a member of the Institute of Public Accountants of Australia (IPA), a member of the Institute of Financial Accountants (IFA) of the United Kingdom, and a member of China Association of Chief Financial Officers. Ms. Chen holds a bachelor's degree in accounting from Changchun University of Science and Technology. Ms. Chen was nominated as a director because of her experience in accounting and auditing.

Yan Shen. Mr. Shen has served as an independent director of Newater Technology since June 2016. Since May 2017, Mr. Shen has served as the business manager of Quanzhou Wanhua Shiwang Micro Fibre Co., Ltd., in charge of sales. Between 2001 to 2017, Mr. Shen served as Associate General Manager of Yantai Wanhua Micro Fibre Co., Ltd., in charge of national sales and marketing. Between 1993 and 2001, Mr. Shen served as international trade manager of China Machinery Import and Export Yantai Co., Ltd. Mr. Shen received his bachelor's degree in machinery design and manufacturing from Yantai University. Mr. Shen was nominated as a director because of his sales and marketing experience.

There are no family relations among any of our officers or directors. There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

B. Compensation.

Executive Compensation

Our board of directors has not adopted or established a formal policy or procedure for determining the amount of compensation paid to our executive officers. Currently, our board of directors determines the compensation to be paid to our executive officers based on our financial and operating performance and prospects, and contributions made by the officers to our success. Each of our named executive officers are measured by a series of performance criteria by the board of directors, or the compensation committee on a yearly basis. Such criteria are set forth based on certain objective parameters such as job characteristics, required professionalism, management skills, interpersonal skills, related experience, personal performance and overall corporate performance. The board of directors will make an independent evaluation of appropriate compensation to key employees, with input from management. The board of directors has oversight of executive compensation plans, policies and programs.

In 2019, we expensed an aggregate of approximately \$439,099 as salaries, bonuses and fees to our senior officers named in this annual report. Other than salaries, fees and share incentives, we do not otherwise provide pension, retirement or similar benefits to our officers and directors.

Director Compensation

Officers are elected by and serve at the discretion of the Board of Directors. Employee directors do not receive any compensation for their services on the Board of Directors. Non-employee directors are entitled to receive \$5,000 per year for serving as directors and may receive option grants from our Company. In addition, non-employee directors are entitled to receive compensation for their actual travel expenses for each Board of Directors meeting attended, up to a maximum of \$2,000 per meeting and \$4,000 per year.

Summary Director Compensation Table FY 2019

Name	Director fees earned or paid in cash	Other Compensation	Total (\$)
Hengtong Li	\$ 5,000	\$ -	\$ 5,000
Zhicun Chen	5,000	-	5,000
Yan Shen	5,000	-	5,000

C. *Board Practices.*

See information provided in response to Item 6.A. above as to the current directors.

Composition of Board

Our board of directors currently consists of five directors. There are no family relationships between any of our executive officers and directors.

The directors are divided into three classes, as nearly equal in number as the then total number of directors permits. All directors hold office until the next annual meeting of shareholders at which their respective class of directors is re-elected and until their successors have been duly elected and qualified. There are no family relationships among our directors or executive officers. Officers are elected by and serve at the discretion of the Board of Directors. Our Class A directors face reelection at our 2020 annual meeting and shall face reelection every three years thereafter. Class B directors shall face re-election at our 2021 annual general meeting of shareholders and every three years thereafter. Class C directors shall face re-election at our 2022 annual general meeting of shareholders and every three years thereafter.

If the number of directors changes, any increase or decrease will be apportioned among the classes so as to maintain the number of directors in each class as nearly as possible. Any additional director of a class elected to fill a vacancy resulting from an increase in such class will hold office for a term that coincides with the remaining term of that class. Decreases in the number of directors will not shorten the term of any incumbent director. These board provisions could make it more difficult for third parties to gain control of our Company by making it difficult to replace members of the Board of Directors.

There are no membership qualifications for directors. Further, there are no share ownership qualifications for directors unless so fixed by us in a general meeting.

The Board of Directors maintains a majority of independent directors who are deemed to be independent under the definition of independence provided by NASDAQ Stock Market Rule 4200(a)(15). Hengtong Li, Zhicun Chen and Yan Shen are our independent directors.

There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

Our Board of Directors plays a significant role in our risk oversight. The Board of Directors makes all relevant company decisions. As such, it is important for us to have both our Chief Executive Officer and Chief Financial Officer serve on the Board as they play key roles in the risk oversight of the Company. As a smaller reporting company with a small board of directors, we believe it is appropriate to have the involvement and input of all of our directors in risk oversight matters.

Board Committees

Currently, three committees have been established under the board: the audit committee, the compensation committee and the nominating committee. The audit committee is responsible for overseeing the accounting and financial reporting processes of our Company and audits of the financial statements of our Company, including the appointment, compensation and oversight of the work of our independent auditors. The compensation committee of the board of directors reviews and makes recommendations to the board regarding our compensation policies for our officers and all forms of compensation, and also administers our incentive compensation plans and equity-based plans (but our board retains the authority to interpret those plans). The nominating committee of the board of directors is responsible for the assessment of the performance of the board, considering and making recommendations to the board with respect to the nominations or elections of directors and other governance issues. The nominating committee considers diversity of opinion and experience when nominating directors.

Hengtong Li, Zhicun Chen, and Yan Shen serve on all three committees. At this time, Hengtong Li chairs the nominating committee; Zhicun Chen chairs the audit committee; and Yan Shen chairs the compensation committee. Zhicun Chen qualifies as an “audit committee financial expert” as that term is defined by the applicable SEC regulations and Nasdaq Capital Market corporate governance requirements.

Duties of Directors

Under British Virgin Islands law, our directors have a duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. See “Description of Share Capital—Differences in Corporate Law” for additional information on our directors’ fiduciary duties under British Virgin Islands law. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. Shareholders shall have the right to seek damages if a duty owed by our directors is breached.

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

- having all the powers necessary for managing and for directing and supervising, the business and affairs for the Company;
- appointing officers and determining the term of office of the officers;
- fixing the emoluments of officers;
- exercising all powers of the Company to incur indebtedness, liabilities or obligations and to secure indebtedness, liabilities or obligations whether of the Company or of any third party;
- designating committees of directors;
- executing checks, promissory notes, drafts, bills of exchange and other negotiable instruments on behalf of the Company; and
- determining that any sale, transfer, lease, exchange, or other disposition is in the usual or regular course of the business carried on by the Company and such determination is, in the absence of fraud, conclusive.

Interested Transactions

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

Remuneration and Borrowing

The directors may receive such remuneration as our board of directors may determine from time to time. Each director is entitled to be repaid or prepaid for all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred in attending meetings of our board of directors or committees of our board of directors or shareholder meetings or otherwise in connection with the discharge of his or her duties as a director. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors.

Our board of directors may exercise all the powers of the company to borrow money and to mortgage or charge our undertakings and property or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party.

Qualification

A director is not required to hold shares as a qualification to office.

Limitation on Liability and Other Indemnification Matters

Under British Virgin Islands law, each of our directors and officers, in performing his or her functions, is required to act honestly and in good faith with a view to our best interests. Our memorandum and articles of association provide that, to the fullest extent permitted by British Virgin Islands law or any other applicable laws, our directors will not be personally liable to us or our shareholders for any acts or omissions in the performance of their duties. Such limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission. These provisions will not limit the liability of directors under United States federal securities laws.

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

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

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

D. Employees.

Our Employees

As of December 31, 2019, we employed 170 people on a full-time basis. We have 13 employees in management and administration, 24 employees in sales and marketing, 37 employees in research and development, 70 employees in manufacturing and assembling, 12 employees in purchasing and quality control and 14 employees in finance and human resource. Our employees are not represented by a labor organization or covered by a collective bargaining agreement. We have not experienced any work stoppages.

We are required under PRC law to make contributions to employee benefit plans at specified percentages of our after-tax profit. In addition, we are required by PRC law to cover employees in China with various types of social insurance. For the years ended December 31, 2019, 2018 and 2017, we contributed approximately \$30,678, \$360,660 and \$188,383 to the employee benefit plans and social insurance, respectively. The effect on our liquidity by the payments for these contributions is immaterial. We believe that we are in material compliance with the relevant PRC employment laws.

Employment Agreements

Under Chinese laws, there are some situations where we can terminate employment agreements without paying economic compensation, such as the employer maintains or raises the employment conditions but the employee refuses to accept the new employment agreement, when the employment agreement is scheduled to expire, the employee is retired in accordance with laws or the employee is dead, declared dead or has disappeared. For termination of employment in absence of legal cause, we are obligated to pay the employee two-month's salary for each year we have employed the employee. We are, however, permitted to terminate an employee for cause without paying economic compensation, such as when the employee has committed a crime, being proved unqualified for recruitment during the probation period, seriously violating the rules and regulations of the employer, or the employee's actions or inactions have resulted in a material adverse effect to us.

Our employment agreements with our executive officers generally provide for a term of three (3) years, provided that either party may terminate the agreement on sixty (60) days notice and a salary to be paid monthly, subject to certain limitations. The agreements also provide that the executive officers are to work an average of forty (40) hours per week and the agreements are subject to the laws of the People's Republic of China. During the agreement and for three (3) years afterward, our executive officers are required to keep trade secrets confidential.

The contracts that we have entered into with executive officers include the following:

Employment Agreement of Yuebiao Li

We entered into an employment agreement with Yuebiao Li effective November 1, 2017, providing for Mr. Li to serve as the Company's Chief Executive Officer. Under the terms of Mr. Li's employment agreement, Mr. Li is, among other matters, to take overall responsibility for the operational management and financial management of the Company in compliance with all applicable laws and devote a minimum of forty hours per week to the Company's business and affairs and in return will be entitled to the following:

- Annual compensation of RMB 660,000 (approximately \$102,000); and
- Reimbursement of reasonable business expenses.

Mr. Li will be eligible to receive an annual bonus based upon annual profit of the company, in the sole discretion of the board of directors. Mr. Li's employment agreement is for a term of thirty-six months, unless the parties enter into a new agreement before the expiration of the term or either party terminates the agreement in writing at least sixty days before the expiration of its term.

Additionally, Mr. Li's employment agreement provides for confidentiality and nondisclosure provisions, whereby Mr. Li is required to keep trade secrets confidential during the course of his employment and for a period of thirty-six months following the termination of his employment. His employment contract also contains a non-compete clause for a duration of twenty-four months following his employment.

Employment Agreement of Zhuo Zhang

We entered into an employment agreement with Zhuo Zhang effective November 1, 2017, providing for Ms. Zhang to serve as the Company's Chief Financial Officer. Under the terms of Ms. Zhang's employment agreement, Ms. Zhang is, among other matters, to oversee all financial and operational controls and metrics of the company in accordance with industry rules and devote a minimum of forty hours per week to the Company's business and affairs and in return will be entitled to the following:

- Annual compensation of RMB 660,000 (approximately \$102,000); and
- Reimbursement of reasonable business expenses.

Ms. Zhang will be eligible to receive an annual bonus based upon annual profit of the company, in the sole discretion of the board of directors. Mr. Zhang's employment agreement is for a term of thirty-six months, unless the parties enter into a new agreement before the expiration of the term or either party terminates the agreement in writing at least sixty days before the expiration of its term.

Additionally, Ms. Zhang's employment agreement provides for confidentiality and nondisclosure provisions, whereby Ms. Zhang is required to keep trade secrets confidential during the course of her employment and for a period of thirty-six months following the termination of her employment. Her employment contract also contains a non-compete clause for a duration of twenty-four months following her employment.

E. Share Ownership.

The following tables set forth certain information with respect to the beneficial ownership of our common shares as of June 4, 2020, for:

- each of our directors and named executive officers; and
- all of our directors and executive officers as a group.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power or the power to receive the economic benefit with respect to all common shares that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 10,809,000 common shares outstanding at June 4, 2020. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Yantai Jinzheng Eco-Technology Co, Ltd. 8 Lande Road, Laishan District, Yantai, Shandong China.

Name of Beneficial Owner	Beneficial Ownership ⁽¹⁾	
	Common Shares	Percentage
Yuebiao Li ^{(2) (3) (5)}	2,900,000	26.8%
Zhuo Zhang ^{(4) (5)}	1,900,000	17.6%
Hengtong Li ⁽⁵⁾	0	*
Zhicun Chen ⁽⁵⁾	0	*
Yan Shen ⁽⁵⁾	0	*
All directors and executive officers as a group	4,800,000	44.4%

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the common shares or the power to receive the economic benefit of the common shares.

(2) Chairman and Chief Executive Officer

(3) Represents 2,900,000 shares held directly by Tigerwind Group Limited, a British Virgin Islands limited liability company controlled by Yuebiao Li. Mr. Li holds voting and investment power over the shares held.

(4) Chief Financial Officer

(5) Director

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders.

As of June 4, 2020, no stockholders known to us was a beneficial owner of more than 5% of our outstanding common shares other than the shareholders identified in the directors and executive officers group in the table above. We have determined beneficial ownership in accordance with the rules of the SEC.

B. Related Party Transactions.

The Company had transactions with the following related parties in the years ended December 31, 2019, 2018 and 2017:

Name of Related Party	Nature of Relationship
Yuebiao Li	Principal shareholder, Chairman of the Board and Chief Executive Officer (“CEO”)
Zhuo Zhang	Principal shareholder, Director, Chief Financial Officer (“CFO”)
Yue Zhang	Principal shareholder, Zhuo Zhang’s sister
Xiaojun Chen	Husband of Zhuo Zhang
Heilongjiang Binteer Environmental Protection Equipment Manufacturing Co., Ltd. (“Heilongjiang Binteer”)	Established by Yuebiao Li, in May 2014, Mr. Li transferred his 60% equity interest to his brother, Yuefeng Li. Yuefeng Li then transferred his 60% equity interest to a third party individual for zero consideration in March 2016.
Daqing Wanjiayuan Water Treatment Equipment Sales Co., Ltd. (“Daqing Wanjiayuan”)	Controlled by Yuebiao Li, the entity was dissolved in June 2017.
Mojie Technology (Beijing) Co., Ltd. (“Mojie”)	Established and controlled by Yuebiao Li and Zhuo Zhang. All of the equity interest was transferred to a third party in July 2015. The entity was dissolved in February 2019.
Yantai Jinna Commerce Co., Ltd. (“Jinna”)	Significantly influenced by Yue Zhang, principal shareholder and sister of Zhuo Zhang. Jinna was dissolved during 2016.
Shandong Jinmo Recycled Water Resource Co., Ltd. (“Jinmo”)	A subsidiary that was incorporated on March 19, 2015 and disposed on December 8, 2016 for consideration of RMB 220,000 (approximately \$31,678) to Entity A.
Yantai Hengqingyuan Eco- Technology Co., Ltd (“Hengqingyuan”)	Jinzheng holds 20% equity interest.
Yantai Jincui Eco-Technology Co., Ltd (“Jincui”)	Jinzheng holds 40% equity interest.
Entity A and its subsidiaries	Entity A is 45% owned by Entity D
Entity B	Significantly influenced by the Company
Entity C	Significantly influenced by the Company
Entity D and its subsidiary	Significantly influenced by the Company

Revenues from related parties and accounts receivable - related parties, net

The Company primarily provides products such as membranes, components and wastewater filtration equipment to Heilongjiang Binteer, Hengqingyuan, Entity A and its subsidiaries, and Entity D's subsidiary. For the years ended December 31, 2019, 2018 and 2017, the Company generated total net related party revenues in the amount of \$13,857,014, \$21,066,741 and \$9,146,994, respectively. The net accounts receivable from related parties amounted to \$2,392,087 and \$1,948,009 as of December 31, 2019 and 2018, respectively.

Net revenues from related parties consisted of the following:

	For the Years Ended December 31,		
	2019	2018	2017
Heilongjiang Binteer	\$ 6,792	\$ -	\$ -
Hengqingyuan	1,921,811	-	-
Entity A and its subsidiaries	11,030,663	20,750,159	8,917,627
Entity B	-	107,894	229,367
Entity D's subsidiary	897,748	208,688	-
Net revenues from related parties	\$ 13,857,014	\$ 21,066,741	\$ 9,146,994

Accounts receivable from related parties consisted of the following:

	For the Years Ended December 31,	
	2019	2018
Entity A and its subsidiaries	\$ 1,460,103	\$ 1,286,405
Entity B	624,312	661,604
Entity D's subsidiary	931,984	-
Accounts receivable from related parties	3,016,399	1,948,009
Less: allowance for doubtful accounts	(624,312)	-
Accounts receivable from related parties, net	<u><u>\$ 2,392,087</u></u>	<u><u>\$ 1,948,009</u></u>

The movement of allowance for doubtful accounts for accounts receivable from related parties consisted of the following:

	For the Years Ended December 31,	
	2019	2018
Allowance for doubtful account, beginning balance	\$ -	\$ 135,946
Increase	624,312	-
Decrease	-	(128,631)
Effects of foreign exchange rate	-	(7,315)
Allowance for doubtful accounts, ending balance	<u><u>\$ 624,312</u></u>	<u><u>\$ -</u></u>

Advances from customers - related parties

As of December 31, 2019 and 2018, advances from customers - related parties amounted to \$7,254,968 and \$586,719, respectively, as follows:

	For the Years Ended December 31,	
	2019	2018
Entity A and its subsidiaries	\$ 72,904	\$ 583,894
Heilongjiang Binteer	5,167	-
Entity D's subsidiary	-	2,825
Jincai	7,176,897	-
Advances from customers – related parties	<u><u>\$ 7,254,968</u></u>	<u><u>\$ 586,719</u></u>

Materials supplied by related parties, service provided by related parties and accounts payable to related parties

The Company purchased membrane modules, membrane filters, and other components of water treatment equipment from Entity D's subsidiary. For the years ended December 31, 2019, 2018 and 2017, the total purchase from related parties amounted to \$2,112,484, \$1,592,537 and \$0, respectively. The Company also subcontracted wastewater treatment service to Entity C, Entity D's subsidiaries, Entity A and its subsidiary. For the years ended December 31, 2019, 2018 and 2017, the services provided by related parties amounted to \$12,240,479, \$11,488,801 and \$1,728,642, respectively. The balance of accounts payable to related parties was \$5,225,004 and \$3,389,148 as of December 31, 2019 and 2018, respectively.

Materials supplied by related party consisted of the following:

	For the Years Ended December 31,		
	2019	2018	2017
Entity D's subsidiary	\$ 2,112,484	\$ 1,592,537	\$ -
Total	<u><u>\$ 2,112,484</u></u>	<u><u>\$ 1,592,537</u></u>	<u><u>\$ -</u></u>

Services provided by related parties consisted of the following:

	For the Years Ended December 31,		
	2019	2018	2017
Entity C	\$ 2,536,720	\$ 5,279,255	\$ 1,728,642
Entity A and its subsidiary	7,521,286	5,918,396	-
Entity D's subsidiaries	2,182,473	291,150	-
Total	<u><u>\$ 12,240,479</u></u>	<u><u>\$ 11,488,801</u></u>	<u><u>\$ 1,728,642</u></u>

Accounts payable - related parties consisted of the following:

	December 31,	
	2019	2018
Entity C	\$ 1,318,692	\$ 1,985,136
Entity A and its subsidiary	2,537,333	1,197,328
Entity D's subsidiaries	1,368,979	206,684
Accounts payable – related parties	<u><u>\$ 5,225,004</u></u>	<u><u>\$ 3,389,148</u></u>

Cost of revenues from related parties – related parties

During the years ended December 31, 2019, 2018 and 2017, materials purchased from and services provided by related parties in the total amount of \$1,450,627, \$5,669,252 and \$0, respectively, were included in cost of revenues from related parties.

Cost of revenues from related parties consisted of the following:

	For the Years Ended December 31,		
	2019	2018	2017
Entity C	\$ -	\$ 4,296,375	\$ -
Entity D's subsidiary	1,450,627	1,372,877	-
Total	<u><u>\$ 1,450,627</u></u>	<u><u>\$ 5,669,252</u></u>	<u><u>\$ -</u></u>

Deposit - related party

During the year ended December 31, 2018, the Company paid \$10,180 to Entity A as security deposit for bidding projects, which was included in deposit - related party in the accompanying consolidated balance sheets. During the year ended December 31, 2019, the Company received deposit in full. As of December 31, 2019 and 2018, the balances of deposit - related party was \$0 and \$10,180.

Due to/from related parties

The balance of due to related parties represents expenses incurred by related parties in the ordinary course of business, expense related parties paid on behalf of the Company as well as the loans the Company obtained from related parties for working capital purposes. The loans owed to the related parties are interest free, unsecured and repayable on demand.

For the year ended December 31, 2018, Yuebiao Li and Zhuo Zhang paid operating expenses on behalf of the Company in the amount of \$9,703 and these payments were fully reimbursed. For the year ended Decmeber 31, 2019, Yuebiao Li and Zhuo Zhang borrowed traveling expenses from the Company that were fully reimbursed as of December 31, 2019. As of December 31, 2019 and 2018, the balance due to/from Yuebiao Li and Zhuo Zhang was \$0.

C. Interests of experts and counsel.

Not applicable for annual reports on Form 20-F.

Item 8. Financial Information**A. Consolidated Statements and Other Financial Information.**

See information provided in response to Item 18 below.

Dividend Policy

The holders of our common shares are entitled to dividends out of funds legally available when and as declared by our board of directors subject to the BVI Act. Our board of directors has never declared a dividend and does not anticipate declaring a dividend in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Should we decide in the future to pay dividends, as a holding company, our ability to do so and meet other obligations depends upon the receipt of dividends or other payments from our subsidiaries and other holdings and investments. Our subsidiaries may, from time to time, be subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions. In particular, Chinese regulations may restrict the ability of Jinzheng and Jinda to pay dividends to us. See “Regulation—Regulation of Foreign Currency Exchange and Dividend Distribution.”

B. Significant Changes.

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

Item 9. The Offer and Listing**A. Offer and listing details.**

Our common shares have been listed on the NASDAQ Capital Market since July 28, 2017 under the symbol “NEWA.” No trading suspensions have occurred in the prior three years.

B. Plan of distribution.

Not applicable for annual reports on Form 20-F.

C. Markets.

Our common shares are listed on the NASDAQ Capital Market under the symbol “NEWA.”

D. *Selling shareholders.*

Not applicable for annual reports on Form 20-F.

E. *Dilution.*

Not applicable for annual reports on Form 20-F.

F. *Expense and issue.*

Not applicable for annual reports on Form 20-F.

Item 10. Additional Information

A. *Share Capital.*

Not applicable for annual reports on Form 20-F.

B. *Memorandum and Articles of Association.*

We incorporate by reference the description of our Memorandum and Articles of Association, as currently in effect in the British Virgin Islands, set forth in our registration statement on Form F-1, declared effective on July 27, 2017 (File No. 333-217355).

C. *Material Contracts.*

Other than described elsewhere in this annual report, we did not have any other material contracts.

D. *Exchange Controls.*

Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China include the Foreign Exchange Administration Regulations (2008 Revision), the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996) and the Interim Measures on Administration on Foreign Debts (2003). Under these regulations, Renminbi are freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for most capital account items, such as direct investment, loans, repatriation of investment and investment in securities outside China, unless the prior approval of SAFE or its local counterparts is obtained. In addition, any loans to an operating subsidiary in China that is a foreign invested enterprise, cannot, in the aggregate, exceed the difference between its respective approved total investment amount and its respective approved registered capital amount. Furthermore, any foreign loan must be registered with SAFE or its local counterparts for the loan to be effective. We may not be able to obtain these government approvals or registrations on a timely basis, if at all, which could result in a delay in the process of making these loans.

Pursuant to the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996) and the Foreign Exchange Administration Regulations (2008 Revision), foreign-invested enterprises in China may purchase or remit foreign exchange, subject to a cap approved by SAFE, for settlement of current account transactions without the approval of SAFE. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from, or registration with, SAFE and other relevant Chinese governmental authorities.

Circular 37

On July 4, 2014, SAFE issued Circular 37, which became effective as of July 4, 2014. According to Circular 37, Chinese residents shall apply to SAFE and its branches for going through the procedures for foreign exchange registration of overseas investments before contributing the domestic assets or interests to a SPV. An amendment to registration or filing with the local SAFE branch by such Chinese resident is also required if the registered overseas SPV's basic information such as domestic individual resident shareholder, name, operating period, or major events such as domestic individual resident capital increase, capital reduction, share transfer or exchange, merger or division has changed. Although the change of overseas funds raised by overseas SPV, overseas investment exercised by overseas SPV and non-cross-border capital flow are not included in Circular 37, we may be required to make foreign exchange registration if required by SAFE and its branches.

Moreover, Circular 37 applies retroactively. As a result, Chinese residents who have contributed domestic assets or interests to a SPV, but failed to complete foreign exchange registration of overseas investments as required prior to implementation of Circular 37, are required to send a letter to SAFE and its branches for explanation. Under the relevant rules, failure to comply with the registration procedures set forth in Circular 37 may result in receiving a warning from SAFE and its branches, and may result in a fine of up to RMB 300,000 for an organization or up to RMB 50,000 for an individual. In the event of failing to register, if capital outflow occurred, a fine up to 30% of the illegal amount may be assessed.

On February 13, 2015, the State Administration of Foreign Exchange issued the Circular on Further Simplifying and Improving Policies for Foreign Exchange Administration on Direct Investment, which became effective on June 1, 2015 (the "Circular 13"), the SAFE assigned its foreign exchange registration for both domestic and overseas direct investment business to licensed Chinese banks, Chinese residents who are required to go through foreign exchange registrations under Circular 37 can register with qualified banks rather than the SAFE and its branches.

Chinese residents who control our Company are required to register with qualified banks in connection with their investments in us. If we use our equity interest to purchase the assets or equity interest of a Chinese company owned by Chinese residents in the future, such Chinese residents will be subject to the registration procedures described in both Circular 37 and Circular 13.

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

An offshore company may invest equity in a Chinese company, which will become the Chinese subsidiary of the offshore holding company after investment. Such equity investment is subject to a series of laws and regulations generally applicable to any foreign-invested enterprise in China, which include the Foreign Investment Law of the PRC, the Regulation for Implementing the Foreign Investment Law of the PRC, the Measures for Reporting of Foreign Investment Information, the Administrative Provisions on Foreign Exchange in Domestic Direct Investment by Foreign Investors, and the Notice of the State Administration on Foreign Exchange on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment, all as amended from time to time.

Under the aforesaid laws and regulations, the increase of the registered capital and total investment amount of a foreign-invested enterprise is subject to reporting obligations through designated online systems as stipulated under the Measures for Reporting of Foreign Investment Information, and shall register with local authorities if such changes fall within the Administrative Regulations of the Registration of Enterprises, additional approval may be required subject to relevant Chinese laws and regulations.

Shareholder loans made by offshore parent holding companies to their Chinese subsidiaries are regarded as foreign debts in China for regulatory purpose, which is subject to a number of Chinese laws and regulations, including the Chinese Foreign Exchange Administration Regulations, the Interim Measures on Administration on Foreign Debts, the Tentative Provisions on the Statistics Monitoring of Foreign Debts and its implementation rules, the Circular on Full-Coverage Macro-Prudent Management of Cross-Border Financing and the Administration Rules on the Settlement, Sale and Payment of Foreign Exchange.

We may make loans to our Chinese subsidiaries subject to the approval from SAFE or its local counterparts and the limitation on the amount of loans. Pursuant to the Interim Measures on Administration on Foreign Debts, the total amount of foreign loans received by a foreign-invested company shall not exceed the difference between the total investment amount and the amount of registered capital of such foreign-invested company.

In addition, on January 11, 2017, the People's Bank of China, or the PBOC, issued the Circular on Full-Coverage Macro-Prudent Management of Cross-Border Financing, or the PBOC Circular 9, which sets out the statutory upper limit on the foreign debts for PRC non-financial entities, including both foreign-invested companies and domestic-invested companies. Pursuant to the PBOC Circular 9, the foreign debt upper limit for both foreign-invested companies and domestic-invested companies is calculated as twice the net asset of such companies. As to net assets, the companies shall take the net assets value stated in their latest audited financial statement.

However, The PBOC Circular 9 does not supersede the Interim Measures on Administration on Foreign Debts. It provides a one-year transitional period from January 11, 2017, for foreign-invested companies, during which foreign-invested companies, such as WFOE, could adopt their calculation method of foreign debt upper limit based on either the Interim Measures on Administration on Foreign Debts or the PBOC Circular 9. The transitional period ended on January 11, 2018. Upon its expiry, pursuant to the PBOC Circular 9, the PBOC and the SAFE shall reevaluate the calculation method for foreign-invested companies and determine what the applicable calculation method would be.

On March 11, 2020, the PBOC and the SAFE jointly promulgated the Circular on Adjusting the Macro-Prudent Adjustment Parameter for Full-Coverage Cross-Border Financing, or the PBOC Circular 64, which came into effect on the same day. Pursuant to the PBOC Circular 64, the macro-prudent adjustment parameter under the PBOC Circular 9 was adjusted from 1 to 1.25, which means the foreign debt upper limit for both foreign-invested companies and domestic-invested companies as stipulated in the PBOC Circular 9 was also adjusted from twice the net asset to 2.5 times the net asset of such companies, and other matters concerning full-coverage cross-border financing are still subject to the PBOC Circular 9. If we choose to make loans to our Chinese subsidiaries in the coming future based on the foreign debt upper limit as stipulated in both PBOC Circular 9 and PBOC Circular 64, the amount of such loans can be up to 2.5 times the net asset of such specific Chinese subsidiary.

Regulation of Dividend Distribution

The principal regulations governing the distribution of dividends by foreign holding companies include the Company Law of China (2018 Revision), the Foreign Investment Law of the PRC and its implementation rule.

Under these regulations, foreign-invested enterprises in China may pay dividends only out of their retained profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, foreign-invested enterprises in China are required to allocate at least 10% of their respective retained profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends, and a foreign-invested is not permitted to distribute any profits until losses from prior fiscal years have been offset.

Moreover, pursuant to the Enterprise Income Tax Law, a 10% withholding tax rate will generally be applicable to dividends declared to non-PRC resident investors, to the extent such dividends are derived from sources within the PRC, the withholding tax rate may be reduced to 5% if we are deemed to have satisfied the relevant conditions and requirements under relevant Chinese laws and regulations.

E. Taxation.

The following sets forth the material British Virgin Islands, Chinese and U.S. federal income tax matters related to an investment in our common shares. It is directed to U.S. Holders (as defined below) of our common shares and is based on laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This description does not deal with all possible tax consequences relating to an investment in our common shares, such as the tax consequences under state, local and other tax laws.

The following brief description applies only to U.S. Holders (defined below) that hold common shares as capital assets and that have the U.S. dollar as their functional currency. This brief description is based on the tax laws of the United States in effect as of the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The brief description below of the U.S. federal income tax consequences to “U.S. Holders” will apply to you if you are a beneficial owner of shares and you are, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

WE URGE POTENTIAL PURCHASERS OF OUR SHARES TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF OUR SHARES.

China Enterprise Income Tax

Enterprise income tax is subject to the Enterprise Income Tax Law of China (2018 Revision) (the “EIT Law”), which was promulgated on December 29, 2018 and became effective on the same day, and the Regulation on the Implementation of Enterprise Income Tax Law of China (2019 Revision) (the “EIT Rules”), which was promulgated on April 23, 2019 and became effective on the same day, the income tax for both domestic and foreign-invested enterprises is at a uniform rate of 25%, unless they qualify for certain exceptions.

On January 29, 2016, the Chinese Ministry of Science and Technology, Ministry of Finance and State Administration of Taxation enacted the newest Administrative Measures for Certifying High and New Technology Enterprises, which retroactively became effective on January 1, 2016. Under the EIT Law, certain qualified high-tech companies may benefit from a preferential tax rate of 15% if they own their core intellectual properties and are classified into certain industries strongly supported by the Chinese government and set forth by certain departments of the Chinese State Council. Jinzheng was granted the high and new technology enterprise (“HNTE”) qualification on August 16, 2018 and valid until the year-end of 2021. Jinzheng could enjoy a preferential income tax rate of 15% from January 1, 2018 to December 31, 2021. There can be no assurance, however, that Jinzheng will continue to meet the qualifications for such a reduced tax rate. In addition, there can be no guaranty that relevant governmental authorities will not revoke Jinzheng’s HNTE status in the future.

Uncertainties exist with respect to how the EIT Law applies to the tax residence status of Newater and our offshore subsidiaries. Under the EIT Law, an enterprise established outside of China with a “de facto management body” within China is considered a “resident enterprise”, which means that it is treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. Although the EIT Rules define “de facto management body” as a managing body that exercises substantive and overall management and control over the production and business, personnel, accounting books and assets of an enterprise, the only official guidance for this definition currently available is set forth in Circular 82 issued by the State Administration of Taxation on April 22, 2009, which provides that a foreign enterprise controlled by a Chinese company or a Chinese company group will be classified as a “resident enterprise” with its “de facto management bodies” located within China if the following criteria are satisfied:

- the place where the senior management and core management departments that are in charge of its daily operations perform their duties is mainly located in China;
- its financial and human resources decisions are made by or are subject to approval by persons or bodies in China;
- its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in China; and
- more than half of the enterprise’s directors or senior management with voting rights frequently reside in China.

We do not believe that we meet the conditions outlined in the preceding paragraph since Newater does not have a Chinese enterprise or Chinese enterprise group as our primary controlling shareholder. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body”. There can be no assurance that the PRC tax authorities will ultimately take a view that is consistent with us. In addition, we are not aware of any offshore holding companies with a corporate structure similar to the Company that has been deemed a China “resident enterprise” by the Chinese tax authorities.

If we are deemed a China resident enterprise, we may be subject to the EIT at the rate of 25% on our global income, except that the dividends we receive from our Chinese subsidiaries may be exempt from the EIT to the extent such dividends are deemed dividends among qualified resident enterprises. If we are considered a resident enterprise and earn income other than dividends from our Chinese subsidiaries, a 25% EIT on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

China Value-Added Tax (“VAT”)

The Provisional Regulations of the PRC on Value-added Tax (2017 Revision) were promulgated by the State Council on November 19, 2017 and became effective on the same day. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (2011 Revision) was promulgated by the Ministry of Finance on October 28, 2011 and became effective on November 1, 2011, or collectively, VAT Law.

On November 19, 2017, the State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax, or Order 691, which abolished the Provisional Regulations of the PRC on Business Tax and integrated the sales of services, intangible assets and real property into the scope of value-added tax collection, the VAT rates applicable were 17%, 11%, 6% and 0%.

On April 4, 2018, the Ministry of Finance and State Administration of Taxation promulgated the Circular on Adjusting Value-added Tax Rates, or Circular 32, which adjusted the value-added tax rates for sales of goods and importation of goods from 17% and 11% to 16% and 10%, and such adjustments became effective on May 1, 2018.

Moreover, on March 20, 2019, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs jointly issued a Circular on Relevant Policies for Deepening Value-added Tax Reform, or Circular 39, which adjusted the value-added tax rates for sales of goods and importation of goods from 16% and 10% to 13% and 9%, and such adjustments became effective since April 1, 2019.

According to the abovementioned laws and circulars, all enterprises and individuals engaged in the sale of goods, provision of processing, repair and replacement services, sales of services, intangible assets, real property and importation of goods within the territory of the PRC are the taxpayers of VAT. The VAT rates currently applicable are simplified as 13%, 9%, 6% and 0%, and the VAT rate applicable to the small-scale taxpayers is 3%.

As of the date of this annual report, the VAT rate for the sale of our goods is 13%, and for the provision of our services is 6%.

British Virgin Islands Taxation

Under the BVI Act as currently in effect, a holder of common shares who is not a resident of the British Virgin Islands is exempt from British Virgin Islands income tax on dividends paid with respect to the common shares and all holders of common shares are not liable to the British Virgin Islands for income tax on gains realized during that year on sale or disposal of such shares. The British Virgin Islands does not impose a withholding tax on dividends paid by a company incorporated or re-registered under the BVI Act.

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

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

United States Federal Income Taxation

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

- a dealer in securities or currencies;
- a person whose “functional currency” is not the United States dollar;
- banks;
- financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to mark-to-market;
- U.S. expatriates;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding our common shares as part of a straddle, hedging, conversion or integrated transaction;

- persons that actually or constructively own 10% or more of our voting shares;
- persons who acquired our common shares pursuant to the exercise of any employee share option or otherwise as consideration; or
- persons holding our common shares through partnerships or other pass-through entities.

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

Taxation of Dividends and Other Distributions on our Common Shares

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

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

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

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

Taxation of Dispositions of Common Shares

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of a share equal to the difference between the amount realized (in U.S. dollars) for the share and your tax basis (in U.S. dollars) in the common shares. The gain or loss will generally be capital gain or loss. Capital gains are generally subject to United States federal income tax at the same rate as ordinary income, except that non-corporate U.S. Holders who have held common shares for more than one year may be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as United States source income or loss for foreign tax credit limitation purposes.

Passive Foreign Investment Company

Based on our current and anticipated operations and the composition of our income and assets, we do not expect to be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our current taxable year ending December 31, 2019. Our actual PFIC status for the current taxable years ending December 31, 2019 will not be determinable until after the close of such taxable years and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year. PFIC status is a factual determination for each taxable year which cannot be made until the close of the taxable year. A non-U.S. corporation is considered a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income; or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the “asset test”).

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

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

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

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

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

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

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

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

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

Information Reporting and Backup Withholding

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

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

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

A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status to the payer, under penalties of perjury, on the applicable IRS Form W-8BEN.

F. Dividends and Paying Agents.

Not applicable for annual reports on Form 20-F.

G. Statement by Experts.

Not applicable for annual reports on Form 20-F.

H. Documents on Display.

We are subject to the information requirements of the Exchange Act. In accordance with these requirements, the company files reports and other information with the SEC. You may read and copy any materials filed with the SEC at the Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at <http://www.sec.gov> that contains reports and other information regarding registrants that file electronically with the SEC. In accordance with NASDAQ Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at www.dtnewa.com. In addition, we will provide hard copies of our annual report free of charge to shareholders upon request.

I. Subsidiary Information.

Not Applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our main interest rate exposure relates to bank borrowings. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rates. As of December 31, 2019, we had \$7,521,387 in outstanding bank borrowings, with an effective interest rate of 6.333%. As of December 31, 2018, we had outstanding bank loans of \$10,616,020, with an effective interest rate of 5.037%.

As of December 31, 2019, if effective interest rates increased/decreased by 1%, with all other variables having remained constant, and assuming the amount of bank borrowings outstanding at the end of the year was outstanding for the entire year, profit attributable to equity owners of our Company would have been RMB 524,000 (\$75,214) lower/higher, respectively, mainly as a result of higher/lower interest income from our cash and cash equivalents and loan receivables.

As of December 31, 2018, if interest rates increased/decreased by 1%, with all other variables having remained constant, and assuming the amount of bank borrowings outstanding at the end of the year was outstanding for the entire year, profit attributable to equity owners of our Company would have been RMB 702,207 (\$106,160) lower/higher, respectively, mainly as a result of higher/lower interest income from our cash and cash equivalents and loan receivables.

Credit Risk

As of December 31, 2019, we had cash and cash equivalents of \$9,944,765. Our cash and cash equivalents are invested primarily in savings and deposit accounts with original maturities of three months or less. Savings and deposit accounts generate a small amount of interest income.

Inflation

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

Foreign Exchange Risk

Our functional currency is the RMB, and our financial statements are presented in U.S. dollar. The exchange rate between RMB and U.S. dollar fluctuates frequently. The change in the value of RMB relative to the U.S. dollar may affect our financial results reported in the U.S. dollar terms without giving effect to any underlying change in our business or results of operation.

Currently, our assets, liabilities, revenues and costs are denominated in RMB and in U.S. dollars. Our exposure to foreign exchange risk will primarily relate to those financial assets denominated in U.S. dollars. Any significant revaluation of RMB against U.S. dollar may materially affect our earnings and financial position, and the value of, and any dividends payable on, our common shares in U.S. dollars in the future.

Commodity Risk

We are not exposed to commodity price risk.

Item 12. Description of Securities Other Than Equity Securities

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

PART II

Item 13. Defaults, Dividends Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

See "Item 10.B – Additional Information – Memorandum and articles of association" for a description of the rights of securities holders, which remain unchanged.

Item 15. Controls and Procedures

(a) Disclosure Controls and Procedures.

As of December 31, 2019 (the "Evaluation Date"), the company carried out an evaluation, under the supervision of and with the participation of management, including the company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of the company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on the foregoing, the chief executive officer and chief financial officer concluded that as of the Evaluation Date the company's disclosure controls and procedures were not effective as of December 31, 2019.

The specific material weakness identified by our management was lack of well-established procedures to identify, approve and report related party transactions. We have set up compensating controls to remediate the material weakness as of the time of filing this report.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external reporting purpose in accordance with U.S. generally accepted accounting principles.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the framework set forth in the report Internal Control – Integrated framework issued in 2013 by the Committee of Sponsoring Organization of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company's internal control system, including (1) the control environment, (2) risk assessment, (3) control activities, (4) information and communication and (5) monitoring.

Based on that evaluation, management concluded that these controls were effective at December 31, 2019.

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

Not applicable.

(d) Changes in internal control over financial reporting.

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 15T. Controls and Procedures

Not applicable.

Item 16. [Reserved]

Item 16A. Audit Committee and Financial Expert

The company's Board of Directors has determined that Mr. Zhicun Chen qualifies as an "audit committee financial expert" in accordance with applicable NASDAQ Capital Market standards. The company's Board of Directors has also determined that Mr. Chen and the other members of the Audit Committee are all "independent" in accordance with the applicable NASDAQ Capital Market standards.

Item 16B. Code of Ethics

Our board of directors has adopted a code of ethics that applies to all of our directors, executive officers and employees. We have filed our code of ethics as an exhibit to our registration statement on Form F-1, declared effective on July 27, 2017 (File No. 333-217355). The code is also available on our official website under the investor relations section at www.dtnewa.com.

Item 16C. Audit-Related Fees***Audit Fees***

During fiscal 2019 and 2018, MaloneBailey, LLP's fees for the annual audit of our financial statements and the periodic reviews of the financial statements were \$285,000 and \$294,000, respectively.

Audit-Related Fees

During fiscal 2019 and 2018, the Company did not incur audit-related services for services rendered in connection with financial due diligence of the company in connection with the company's initial public offering.

Tax Fees

The company has not paid MaloneBailey, LLP for tax services in fiscal 2019, 2018 and 2017.

All Other Fees

The company has not paid MaloneBailey, LLP for any other services in fiscal 2019, 2018 and 2017.

Audit Committee Pre-Approval Policies

Before MaloneBailey, LLP was engaged by the company to render audit or non-audit services, the engagement was approved by the company's audit committee. All services rendered by MaloneBailey, LLP have been so approved.

Item 16D. Exemptions form the Listing Standards for the Audit Committee

Not Applicable.

Item 16E. Purchase of Equity Securities by the Issuer and the Affiliated Purchasers

Neither the company nor any affiliated purchaser has purchased any shares or other units of any class of the company's equity securities registered by the company pursuant to Section 12 of the Securities Exchange Act during the fiscal year ended December 31, 2019.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

Other than as described in this section, our corporate governance practices do not differ from those followed by domestic companies listed on the NASDAQ Capital Market. NASDAQ Listing Rule 5635 generally provides that shareholder approval is required of U.S. domestic companies listed on the NASDAQ Capital Market prior to issuance (or potential issuance) of securities equaling 20% or more of the company's common stock or voting power for less than the greater of market or book value.

Notwithstanding this general requirement, NASDAQ Listing Rule 5615(a)(3)(A) permits foreign private issuers like the company to follow their home country practice rather than this shareholder approval requirement. The company, therefore, is not required to obtain such shareholder approval prior to entering into a transaction with the potential to issue securities as described above.

In order to qualify for the exemption set forth in Rule 5615(a)(3), we must promptly notify NASDAQ of our intention to utilize our home country practice of the British Virgin Islands by providing NASDAQ a written statement from independent counsel licensed in the British Virgin Islands. The written statement provided to NASDAQ must state that the British Virgin Islands does not have an equivalent to NASDAQ's 20% rule and that our current practice is both legal and an accepted business practice in the British Virgin Islands. We have not determined whether we will follow our home practice of not obtaining shareholder approval prior to entering into a transaction with the potential to issue securities as described above. Therefore, currently there are no significant differences between our corporate governance practices and those followed by U.S. domestic companies under Nasdaq rules.

Item 16H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

We have elected to provide financial statements pursuant to Item 18.

Item 18. Financial Statements

The consolidated financial statements of Newater Technology, Inc. are included at the end of this annual report, beginning with page F-1.

Item 19. Exhibits

Exhibit
1.1 Memorandum and Articles of Association (1)
2.1 Specimen Common Share Certificate (1)
4.1 Equity Transfer Agreement of Yantai Jinzheng Eco-Technology Co., Ltd. dated January 25, 2016 (1)
4.2 Equity Transfer Agreement of Yantai Jinzheng Eco-Technology Co., Ltd. dated February 5, 2016 (1)
4.3 Employment Agreement of Yuebiao Li (2)
4.4 Employment Agreement of Zhuo Zhang (2)
4.5 Translation of Convertible Debt Agreement dated June 6, 2016 by and between Newater Technology, Newater HK, Jinzheng and Hairwong Wang (1)
4.6 Translation of Convertible Debt Agreement dated June 6, 2016 by and between Newater Technology, Newater HK, Jinzheng and Honghua Liu (1)
4.7 Translation of Convertible Debt Agreement dated June 6, 2016 by and between Newater Technology, Newater HK, Jinzheng and Yang Gao (1)
4.8 Translation of Convertible Debt Agreement dated June 6, 2016 by and between Newater Technology, Newater HK, Jinzheng and Yuxiang Qi (1)

Exhibit

4.9	Summary Translation of Credit Agreement between Jinzheng and Qingdao Metro Financial (5)
4.10	General Contract for Advanced Project BT (Build and Transfer) of Mine Water by and between Yantai Jinzheng Eco-Technology Co., Ltd. and Yulin Yuyang Zhongneng Yuandatan Mining Co., Ltd.(3)
4.11	Assignment of General Contract for Advanced Project BT (Build and Transfer) of Mine Water by and between Yantai Jinzheng Eco-Technology Co., Ltd.(4)
8.1	List of Subsidiaries (5)
11.1	Code of Ethics (1)
12.1	Certification of the Chief Executive Officer of Newater Technology, Inc. pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of the Chief Executive Officer of Newater Technology, Inc. pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification of the Chief Executive Officer of Newater Technology, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of the Chief Financial Officer of Newater Technology, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Press Release dated June 5, 2020 titled “Newater Technology, Inc. Announces Year 2019 Audited Financial Results”
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

- (1) Filed as an exhibit to the Newater Technology, Inc.’s Registration Statement on Form F-1, as amended on Form F-1 (Registration No. 333-217355) initially filed on April 18, 2017 and hereby incorporated by reference.
(2) Filed as an exhibit to Newater Technology, Inc.’s Report on Form 6-K, filed on December 1, 2017 and hereby incorporated by reference.
(3) Filed as an exhibit to Newater Technology, Inc.’s Report on Form 6-K/A, filed on January 14, 2020 and hereby incorporated by reference.
(4) Filed as an exhibit to Newater Technology, Inc.’s Report on Form 6-K, filed on April 6, 2020 and hereby incorporated by reference.
(5) Filed as an exhibit to Newater Technology, Inc.’s Report on Form 20-F, filed on April 30, 2019 and hereby incorporated by reference.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

NEWATER TECHNOLOGY, INC.

By: /s/ YUEBIAO LI
Yuebiao Li
Chief Executive Officer

Date: June 5, 2020

NEWATER TECHNOLOGY, INC. AND SUBSIDIARIES
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Newater Technology, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Newater Technology, Inc. and Subsidiaries (collectively, the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ MaloneBailey, LLP
www.malonebailey.com
We have served as the Company's auditor since 2016.
Houston, Texas
June 5, 2020

NEWATER TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,944,765	\$ 2,461,501
Restricted cash, current	4,021,177	6,033,482
Accounts receivable, net	11,293,625	10,064,847
Accounts receivable - related parties, net	2,392,087	1,948,009
Notes receivable	360,505	6,999
Inventories	13,715,369	13,762,959
Deposit - related party	-	10,180
Deferred cost of revenue	221,737	343,090
Advance to suppliers and other current assets, net	4,699,755	4,904,290
Total current assets	46,649,020	39,535,357
Retentions receivable, non-current	734,140	344,856
Property, plant and equipment, net	24,611,862	18,753,340
Land use rights, net	2,008,096	2,078,240
Operating lease right-of-use assets, net	141,016	-
Deferred tax assets	-	604,064
Deposit on loan agreement	918,643	436,275
Long-term investments	2,997,419	-
Total assets	\$ 78,060,196	\$ 61,752,132
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and bank acceptance notes to vendors	\$ 8,099,529	\$ 5,353,538
Accounts payable - related parties	5,225,004	3,389,148
Loans due within one year	11,809,449	10,867,111
Advances from customers	5,522,913	2,953,595
Advances from customers - related parties	7,254,968	586,719
Income tax payables	322,419	732,699
Accrued expenses and other payables	6,971,505	6,375,800
Operating lease liabilities, current	56,852	-
Deferred income	43,061	-
Total current liabilities	45,305,700	30,258,610
Deferred Income, non-current	43,061	-
Deferred tax liabilities	288,687	-
Operating lease liabilities, non-current	68,420	-
Long-term loans, less current portion and unamortized debt issuance costs	1,377,217	4,449,889
Total non-current liabilities	1,777,385	4,449,889
Total liabilities	47,083,085	34,708,499
Shareholders' equity		
Common shares (\$0.001 par value, 200,000,000 shares authorized, 10,809,000 shares issued and outstanding as of December 31, 2019 and December 31, 2018)	10,809	10,809
Additional paid-in capital	26,303,348	15,059,181
Statutory reserves	2,267,219	1,765,711
Retained earnings	3,946,021	11,380,149
Accumulated other comprehensive loss	(1,550,286)	(1,172,217)
Total shareholders' equity	30,977,111	27,043,633
Total liabilities and shareholders' equity	\$ 78,060,196	\$ 61,752,132

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

NEWATER TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Years ended December 31,		
	2019	2018	2017
Net revenues	\$ 23,716,978	\$ 25,973,963	\$ 16,192,503
Net revenues from related parties	13,857,014	21,066,741	9,146,994
Total revenues	37,573,992	47,040,704	25,339,497
Cost of revenues	20,233,998	20,474,072	17,199,866
Cost of revenues from related parties	1,450,627	5,669,252	-
Total cost of revenues	21,684,625	26,143,324	17,199,866
Gross profit	15,889,367	20,897,380	8,139,631
Operating expenses:			
Selling, general and administrative	10,148,039	12,025,924	5,452,349
Total operating expenses	10,148,039	12,025,924	5,452,349
Income from operations	5,741,328	8,871,456	2,687,282
Interest expense	1,087,051	658,290	242,707
Interest income	(38,328)	(26,632)	(112,592)
Government grants	(946,164)	(627,748)	(513,538)
Investment loss	17,023	-	-
Other expenses (income)	(153,546)	(1,162)	3,956
Total other expenses (income)	(33,964)	2,748	(379,467)
Income before income taxes provisions	5,775,292	8,868,708	3,066,749
Income tax provisions	1,463,745	1,657,279	475,818
Net income	4,311,547	7,211,429	2,590,931
Other comprehensive income (loss)			
Foreign currency translation adjustment	(378,069)	(1,159,084)	535,810
Total comprehensive income	\$ 3,933,478	\$ 6,052,345	\$ 3,126,741
Earnings per common share			
Basic	\$ 0.40	\$ 0.67	\$ 0.26
Diluted	\$ 0.40	\$ 0.67	\$ 0.26
Weighted average common shares outstanding			
Basic	10,809,000	10,809,000	9,864,479
Diluted	10,809,000	10,809,000	9,864,479

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

NEWATER TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Number of Shares	Common Shares	Additional Paid-in Capital	Retained Earnings (Deficit)	Statutory Reserves	Other Comprehensive Income (Loss)	Accumulated Total Shareholder's Equity
Balance, December 31, 2016	9,199,000	\$ 9,199	\$ 7,949,466	\$ 2,960,698	\$ 382,802	\$ (548,943)	\$ 10,753,222
Net income				2,590,931			2,590,931
Statutory reserves				(322,896)	322,896		-
Issuance of common shares for cash	1,610,000	1,610	7,109,715				7,111,325
Foreign currency translation adjustment						535,810	535,810
Balance, December 31, 2017	10,809,000	\$ 10,809	\$ 15,059,181	\$ 5,228,733	\$ 705,698	\$ (13,133)	\$ 20,991,288
Net income				7,211,429			7,211,429
Statutory reserves				(1,060,013)	1,060,013		-
Foreign currency translation adjustment						(1,159,084)	(1,159,084)
Balance, December 31, 2018	10,809,000	\$ 10,809	\$ 15,059,181	\$ 11,380,149	\$ 1,765,711	\$ (1,172,217)	\$ 27,043,633
Net income				4,311,547			4,311,547
Statutory reserves				(501,508)	501,508		-
Capital increase from retained earnings				11,244,167	(11,244,167)		-
Foreign currency translation adjustment						(378,069)	(378,069)
Balance, December 31, 2019	10,809,000	\$ 10,809	\$ 26,303,348	\$ 3,946,021	\$ 2,267,219	\$ (1,550,286)	\$ 30,977,111

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

NEWATER TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net income	\$ 4,311,547	\$ 7,211,429	\$ 2,590,931
Adjustments to reconcile net income to net cash used in operating activities:			
Loss from equity method investment	17,023	-	-
Depreciation and amortization expense	1,549,296	558,327	233,493
Deferred income taxes	892,548	(118,199)	(312,997)
Bad debt expense	1,243,709	280,228	229,707
Amortization of debt issuance costs	324,221	103,772	-
Noncash lease expense	41,935	-	-
Loss on disposal of property, plant and equipment	1,367	13,256	-
Changes in assets and liabilities:			
Accounts receivable, net	(1,509,728)	(5,327,278)	(5,076,425)
Accounts receivable - related parties, net	(1,103,104)	(1,427,078)	2,821,621
Notes receivable	(356,648)	(7,276)	70,000
Inventories	(2,923,465)	(5,762,750)	(4,923,400)
Deferred cost of revenue	117,910	383,382	(657,875)
Deferred cost of revenue - related party	-	1,765,856	(1,795,222)
Advances to suppliers and other current assets, net	(311,090)	(2,108,928)	(412,955)
Due from related parties	-	-	703
Retentions receivable, non-current	(397,157)	(358,505)	-
Deposit - related party	10,134	(10,583)	-
Other non-current assets	-	-	4,719
Accounts payable and bank acceptance notes to vendors	2,839,752	996,619	2,577,192
Accounts payable - related parties	1,896,054	3,269,238	248,695
Deferred income	43,433	-	(26,639)
Advances from customers	2,630,143	2,420,363	(220,483)
Advances from customers - related parties	6,733,465	(125,099)	719,550
Due to related parties	-	-	5,102
Deferred income, non-current	43,433	-	-
Operating lease liabilities	(76,752)	-	-
Income tax payables	(404,231)	267,988	144,944
Accrued expenses and other payables	(2,322,199)	(4,481,539)	589,638
Net cash provided by (used in) operating activities	13,291,596	(2,456,777)	(3,189,701)
Cash flows from investing activities			
Cash paid for equity investments	(3,015,119)	-	-
Purchase of property, plant and equipment	(2,316,967)	(5,511,732)	(1,482,360)
Proceeds from disposal of property, plant and equipment	427,261	22,072	-
Advances to third party	-	-	(1,236,490)
Repayments from third party	-	-	1,236,490
Repayments from related parties	-	-	2,960
Deposit on acquisition of subsidiary	-	(200,000)	-
Net cash used in investing activities	(4,904,825)	(5,689,660)	(1,479,400)
Cash flows from financing activities			
Proceeds from issuances of common shares	-	-	7,111,325
Repayment to related parties	-	(9,703)	(739,973)
Deposit on loan agreement	(503,939)	(473,698)	-
Proceeds from loans due within one year	7,454,711	11,493,557	8,805,683
Repayment of loans due within one year	(8,046,350)	(11,952,224)	(3,283,830)
Proceeds from long-term loans	6,376,169	8,631,493	-
Payment of debt issuance costs	(335,938)	(284,219)	-
Repayment of long-term loans	(7,736,415)	(730,595)	-
Net cash provided by (used in) financing activities	(2,791,762)	6,674,611	11,893,205
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(124,050)	(404,956)	222,973
Net change in cash, cash equivalents and restricted cash	5,470,959	(1,876,782)	7,447,077
Cash, cash equivalents and restricted cash, beginning of the year	8,494,983	10,371,765	2,924,688
Cash, cash equivalents and restricted cash, end of the year	\$ 13,965,942	\$ 8,494,983	\$ 10,371,765
Supplemental cash flow information			
Cash paid for interest	\$ 608,431	\$ 689,867	\$ 244,753
Cash paid for income taxes	<u>\$ 977,755</u>	<u>\$ 1,507,489</u>	<u>\$ 656,602</u>
Non-cash investing and financing activities:			
Properties acquired with loans	\$ -	\$ 52,161	\$ 206,000
Liabilities assumed in connection with purchase of property, plant and equipment	<u>\$ 2,980,582</u>	<u>\$ 2,636,770</u>	<u>\$ 7,445,478</u>
Operating expenses paid by related parties	\$ -	\$ 9,703	\$ -
Property, plant and equipment transferred from inventories	<u>\$ 2,791,339</u>	<u>\$ 1,566,314</u>	<u>\$ -</u>

Reconciliation of cash, cash equivalents and restricted cash to the consolidated balance sheets

Cash and cash equivalents	\$ 9,944,765	\$ 2,461,501	\$ 3,118,080
Restricted cash	4,021,177	6,033,482	7,253,685
Total cash, cash equivalents and restricted cash	\$ 13,965,942	\$ 8,494,983	\$ 10,371,765

The accompanying footnotes are an integral part of these consolidated financial statements

NEWATER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – ORGANIZATION

Newater Technology, Inc. (“Newater Technology”) was incorporated on September 30, 2015 under the laws of the British Virgin Islands. On November 4, 2015, Newater Technology incorporated a wholly owned subsidiary, Newater HK Limited (“Newater HK”) in Hong Kong for the purpose of being a holding company for the equity interest in Yantai Jinzheng Eco-Technology Co., Ltd. (“Jinzheng”). Other than the equity interest in Newater HK, Newater Technology does not conduct any operations or own any material assets or liabilities except for cash. Newater HK does not conduct any operations or own any material assets or liabilities except for cash, restricted cash, professional fees payable, and the 100% of the equity interest of Jinzheng which it acquired on January 25, 2016.

Jinzheng was founded in Yantai City, Shandong Province, People’s Republic of China (“PRC”) on July 5, 2012 as a limited liability company. Jinzheng had a wholly owned subsidiary, Shandong Jinmo Recycled Water Resource Co., Ltd. (“Jinmo”), which was incorporated on March 19, 2015 and disposed on December 8, 2016. Jinzheng is a service provider and manufacturer of membrane filtration equipment and related hardware and engineered systems that are used in the treatment, recycling and discharge of wastewater.

On January 25, 2016, and February 5, 2016, respectively, Newater HK entered into an equity transfer agreement and a supplementary equity transfer agreement with Yuebiao Li, Zhuo Zhang, and Yue Zhang, the shareholders of Jinzheng at the time, to acquire 100% of the equity interests in Jinzheng (“reorganization”).

Immediately before and after the reorganization, the shareholders of Jinzheng controlled Jinzheng and Newater Technology. Therefore, for accounting purposes, the reorganization is accounted for as a transaction between entities under common control. Accordingly, the accompanying consolidated financial statements have been prepared as if the current corporate structure had been in existence throughout the periods presented. The historical cost of all parties are carried forward.

On March 27, 2019, Yantai Jinzheng Eco-Technology Co., Ltd Xi'an Branch (“Jinzheng-Xi'an”) was incorporated in PRC as a branch of Jinzheng. Jinzheng-Xi'an does not conduct any operations or own any asset or liabilities.

On April 24, 2019, Newater Technology America, Inc. (“Newater America”) was incorporated in Delaware U.S. as Newater Technology’s wholly owned subsidiary. Newater America does not conduct any operations or own any asset or liabilities except for cash.

On April 30, 2019, Jinda Eco-Technology (Hainan) Co., Ltd. (“Jinda”) was incorporated in PRC as Newater HK’s wholly owned subsidiary. Jinda is mainly engaged in the sale and maintenance of water treatment equipment, and consulting services for water treatment technology.

On June 14, 2019, Shaanxi Jinyu Zhengde Environmental Engineering Co., Ltd (“Jinyu”) was incorporated in PRC as Jinzheng’s wholly owned subsidiary. Shaanxi Jinyu does not conduct any operations or own any assets or liabilities.

On June 11, 2018, Yantai nuclear power R&D Center Water Treatment Research Institute Co., Ltd (“Yantai Nuclear-Power”) was incorporated in the PRC. On July 5, 2019, Jinzheng acquired 70% equity of Yantai Nuclear-Power with a symbolic consideration of approximately \$0.3 (RMB 2). Yantai Nuclear-Power does not conduct any operations or own any assets or liabilities.

As a result, Newater HK, Jinzheng, Newater America, Jinda, Jinzheng – Xi'an, Jinyu, and Yantai Nuclear-Power are referred to as subsidiaries. Newater Technology and its consolidated subsidiaries are collectively referred to herein as the “Company”, “we” and “us”, unless specific reference is made to an entity.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

This basis of accounting differs in certain material respects from that used for the preparation of the books of Jinzheng and Jinda, which are prepared in accordance with the accounting principles and the relevant financial regulations applicable to enterprises with limited liabilities established in the PRC (“PRC GAAP”), the accounting standards used in the places of their domicile. The accompanying consolidated financial statements reflect necessary adjustments not recorded in the books of Jinzheng and Jinda to present them in conformity with U.S. GAAP.

The accompanying consolidated financial statements consolidate the financial statements of Newater Technology, its 100% owned subsidiaries Newater HK and Newater America, Newater HK’s 100% owned subsidiaries Jinzheng and Jinda, and Jinzheng’s branch, 100% owned and 70% owned subsidiaries, respectively, Jinzheng – Xi'an, Jinyu, and Yantai Nuclear-Power. All significant intercompany balances and transactions have been eliminated. The results of subsidiaries acquired or disposed of during the respective periods are included in the consolidated statements of income and comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Foreign Currency Translation

The accompanying consolidated financial statements are presented in United States dollar ("\$"), which is the reporting currency of the Company. The functional currency of Newater Technology, Newater America and Newater HK is United States dollar. The functional currency of Jinzheng, Jinzheng – Xi'an, Jinda, Jinyu and Yantai Nuclear-Power is Renminbi ("RMB"). For the subsidiaries whose functional currencies are RMB, results of operations and cash flows are translated at average exchange rates during the period, assets and liabilities are translated at the exchange rate at the end of the period, and equity is translated at historical exchange rates. The resulting translation adjustments are included in determining other comprehensive income or loss. Transaction gains and losses are reflected in the consolidated statements of income and comprehensive income.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates and judgments on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances. Estimates and assumptions of future events and their effects cannot be perceived with certainty and, accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as operating environment changes. Significant estimates and assumptions by management include, among others, estimated life and impairment of long-lived assets, allowance for doubtful accounts, contingencies and litigation, total costs in connection with service revenues, valuation of inventories and income taxes including the valuation allowance for deferred tax assets. While the Company believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from those estimates. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash in time deposits, certificates of deposit and all other highly liquid instruments with original maturities of three months or less.

Restricted Cash

The current portion of restricted cash includes bank deposits used to pledge bank acceptance notes, cash deposits pledged in exchange for guarantee service provided by third party and certificate of deposit pledged for bank loan obtained from a bank. The Company entered into credit agreements with commercial banks in China ("endorsing banks") which agree to provide credit within stipulated limits. Within the stipulated credit limits, the Company can issue bank acceptance notes to its suppliers as payments for purchases. In order to issue bank acceptance notes, the Company is generally required to make initial deposits to the endorsing banks in amounts of certain percentage of the face amount of the bank acceptance notes to be issued by the Company. The cash in such accounts is restricted for use over the terms of the bank acceptance notes, which are normally three to six months.

Accounts Receivable and Allowance for Bad Debts

The Company presents accounts receivables, net of allowances for doubtful accounts and returns, to ensure accounts receivable are not overstated due to failure in collection.

Accounts receivable consists principally of amounts due from trade customers. Credit is extended based on an evaluation of the customer's financial condition and collateral is not generally required. Certain credit sales are made to industries that are subject to cyclical economic changes.

The Company maintains allowances for doubtful accounts for estimated losses resulting from Company's failure to collect or recover from customers. Estimates are based on historical collection experience, current trends, credit policy and relationship between accounts receivable and revenues. In determining these estimates, the Company examines historical write-offs of its receivable and reviews each client's account to identify any specific customer collection issues.

Retentions Receivable

Retentions receivable represents the amount withheld by customers until the end of warranty period, usually one to two years from customer acceptance at installation. Retentions receivable which were expected to be collected within one year of \$858,902 and \$1,017,333 were included in the balance of accounts receivable, net as of December 31, 2019 and 2018, respectively. Retentions receivable from related parties which were expected to be collected within one year of \$273,184 and \$854,835 were included in the balance of accounts receivable from related parties, net as of December 31, 2019 and 2018, respectively. Retentions receivable which were expected to be collected after one year of \$734,140 and \$344,856 were included in the balance of retentions receivable, non-current as of December 31, 2019 and 2018, respectively.

Inventories

Inventories, consisting of raw materials, work in process and finished goods are stated at the lower of cost or net realizable value utilizing the weighted average method. Cost includes all costs of purchase, cost of conversion and other costs incurred to bring the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to sell.

The valuation of inventory requires the Company to estimate excess and slow moving inventories. The Company evaluates the recoverability of the inventory based on expected demand and market conditions.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use. Maintenance, repairs and betterments, including replacement of minor items, are charged to expense; major additions to physical properties are capitalized. Gains and losses on disposal of property, plant and equipment are recognized in the statement of income and comprehensive income based on the net disposal proceeds less the carrying amount of the assets.

Depreciation of property, plant and equipment is calculated based on cost, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

Machinery equipment	10 years
Computer software	10 years
Kitchen and cookware	5 years
Electronic equipment	5 years
Office equipment	5 years
Motor vehicles	5-10 years
Buildings	5-20 years
Membrane cushion	3 years
Wastewater treatment system, except for membrane cushion	10 years
Leasehold improvements	The lesser of remaining lease term or 5 years

Construction in progress mainly represents expenditures on the Company's factory under construction. All direct costs relating to the acquisition or construction of the Company's factory including interest cost are capitalized as construction in progress. Construction in progress is not depreciated until the asset is placed in service.

Land Use Rights

According to the law of China, the government owns all the land in China. Companies or individuals are authorized to possess and use the land only through land use rights granted by the Chinese government. Land use rights are being amortized using the straight-line method over the estimated useful life of 50 years.

Impairment of Long-Lived Assets

In accordance with ASC Topic 360, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. There were no impairment charges on long-lived assets for the years ended December 31, 2019, 2018 and 2017.

Long-term Investments

The Company's long-term investments are equity method investments.

In accordance with ASC 323, Investments-Equity Method and Joint Ventures, the Company applies the equity method of accounting to equity investments, over which it has significant influence but does not own a majority equity interests or otherwise control. Significant influence is generally considered to exist when the Company has an ownership interest in the voting stock of the investee between 20% and 50%. Under the equity method, the Company initially records its investment at cost and subsequently adjusts the carrying amount of the investment to recognize the Company's proportionate share of each equity investee's net income or loss into earnings after the date of investment.

The Company continually reviews its investment under equity method to determine whether a decline in fair value to below the carrying value is other-than-temporary. The primary factors in its determination are the duration and severity of the decline in fair value, the financial condition, operating performance and the prospects of the equity investee, and other company specific information such as recent financing rounds. If the decline in fair value is deemed to be other-than-temporary, the carrying value of the equity investee is written down to fair value. The Company makes a qualitative assessment of whether the investments is impaired at each reporting date.

No impairment was identified during the year ended December 31, 2019.

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, current portion of restricted cash, accounts receivable, net, notes receivables, inventories, deferred cost of revenue, advances to suppliers and other current assets, net, accounts payable and bank acceptance notes to vendors, loans due within one year, advances from customers, income tax payables, current portion of operating lease liability, current portion of deferred income, and accrued expenses and other payables, the carrying amounts approximate their fair values due to the short maturities.

Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated. It is not, however, practical to determine the fair value of amounts due from/to related parties due to their related party nature.

Lease Commitments

Recent adoption of accounting pronouncement ASU 2016-02

On January 1, 2019, the Company adopted Accounting Standards Update (ASU) 2016-02, Leases (together with all amendments subsequently issued thereto, "ASC Topic 842"), using the modified retrospective method. The Company elected the transition method which allows entities to initially apply the requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. As a result of electing this transition method, previously reported financial information has not been restated to reflect the application of the new standard to the comparative periods presented. The Company elected the package of practical expedients permitted under the transition guidance within ASC Topic 842, which among other things, allows the Company to carry forward certain historical conclusions reached under ASC Topic 840 regarding lease identification, classification, and the accounting treatment of initial direct costs. The Company elected not to record assets and liabilities on its consolidated balance sheet for new or existing lease arrangements with terms of 12 months or less. The Company recognizes lease expenses for such leases on a straight-line basis over the lease term. In addition, the Company elected the land easement transition practical expedient and did not reassess whether an existing or expired land easement is a lease or contains a lease if it has not historically been accounted for as a lease.

The initial lease liability is equal to the future fixed minimum lease payments discounted using the Company's incremental borrowing rate, on a secured basis. The lease term includes option renewal periods and early termination payments when it is reasonably certain that the Company will exercise those rights. The initial measurement of the right-of-use asset is equal to the initial lease liability plus any initial direct costs and prepayments, less any lease incentives.

The primary impact of applying ASC Topic 842 is the initial recognition of \$156,301 lease liabilities and \$146,134 right-of-use assets on the Company's consolidated balance sheet as of January 1, 2019, for leases classified as operating leases under ASC Topic 840, as well as enhanced disclosure of the Company's leasing arrangements. There is no cumulative effect to retained earnings or other components of equity recognized as of January 1, 2019 and the adoption of this standard did not impact the consolidated statement of income and comprehensive income or consolidated statement of cash flows of the Company. The Company does not have finance lease arrangements as of December 31, 2019. See Note 12 for further discussion.

Payments made under operating leases are charged to the consolidated statements of income and comprehensive income on a straight-line basis over the lease period.

Earnings per Share

Basic earnings per common share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding during the year. Diluted earnings per share is computed by dividing net income attributable to common stockholders by the sum of the weighted average number of common stock outstanding and dilutive potential common stock during the year. Potentially dilutive common shares consist of common stock warrants using the treasury stock method. Common equivalent shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive.

Revenue Recognition

The Company derives its revenues from: (1) sale of products such as membrane filtration equipment and related hardware, and integrated wastewater treatment systems (“product revenues”); (2) sale of engineered wastewater treatment system projects (“project revenues”); and (3) providing wastewater treatment services for landfill leachate, industrial park common effluent treatment plants, etc. (“service revenues”).

Products Revenue

Products Revenue is derived from contracts with customers, which primarily include the sale of membrane filtration systems and parts. The Company’s sales arrangements do not contain variable consideration. The Company recognizes revenue at a point in time based on management’s evaluation of when performance obligations under the terms of a contract with the customer are satisfied and control of the products has been transferred to the customer. For vast majority of the Company’s product sales, the performance obligations and control of the products transfer to the customer when products are delivered and customer acceptance is made.

Project Revenue

The general contract terms of wastewater treatment system projects include project management, timeframe of the project, payment terms, rights and obligations of parties, acceptance criteria, and liability for breach of contract.

The Company considers these promised goods and services as one performance obligation since its customer cannot benefit from a separate promised goods or service until combining them as a bundle of goods and series that is distinct.

Revenue is recognized when performance obligation under the terms of a contract with the customer are satisfied and control of the products has been transferred to the customer, which normally occurs when customer-issued formal acceptance was obtained or (ii) the Company has demonstrated the equipment meets the agreed-upon criteria per the contract when formal acceptance is not available.

The Company usually provides free after-sales service under project revenue, which includes warranty, technical support and training, for a period ranging from one to two years based on each contract. The warranty doesn’t constitute a separate performance obligation since it is standard warranty to assure the project will function as expected. The actual after-sales expense was \$467,056, \$275,520 and \$122,737 for the years ended December 31, 2019, 2018 and 2017, respectively.

Service Revenue

Service revenue is derived from the contracts with customers where the Company acts as a solution provider and treats wastewater for customers. The general contract terms of wastewater treatment service include operation management, timeframe of the service, pricing and payment terms, rights and obligations of parties, performance test criteria, and liability for breach of contract.

The terms of pricing and payment stipulated in the contract are fixed.

The Company recognizes service revenue as the performance obligations are satisfied over time, specifically, based on the volume of wastewater treated.

Revenue consists of the invoiced value for the sales net of value-added tax (“VAT”), business tax, applicable local government levies, rebates, discounts and returns.

The Company chooses its customers with scrutiny and keeps record of collection of receivables. Receivables from customers with solid credit records and history are considered probable to be collected.

There were no sales returns and allowances for the years ended December 31, 2019, 2018 and 2017. The Company does not provide unconditional right of return, pricing protection or any other concessions to its customers.

In accordance with ASC 606, the Company disaggregates revenue from contracts with customers by revenue stream. The Company determined that disaggregating revenue into these categories meets the disclosure objective in ASC 606 which is to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by regional economic factors. Refer to Note 19 for information regarding revenue disaggregation by revenue stream.

Contract liabilities are recorded when consideration is received from a customer prior to transferring the goods to the customer or other conditions under the terms of a sales contract. As of December 31, 2019 and 2018, the Company recorded contract liabilities of \$5,522,913 and \$2,953,595, respectively, which was presented as “Advances from customers” in the accompanying consolidated balance sheets. As of December 31, 2019 and 2018, the Company recorded contract liabilities of \$7,254,968 and \$586,719, respectively, which was presented as “Advances from customers – related parties” in the accompanying consolidated balance sheets. During the years ended December 31, 2019 and 2018, the Company recognized \$1,464,271 and \$246,146, respectively, of contract liabilities included in the opening balances of advance from customers. During the years ended December 31, 2019 and 2018, the Company recognized \$525,934 and \$707,056, respectively, of contract liabilities included in the opening balances of advance from customers – related parties. The amount was included in net revenues in the accompanying consolidated statements of income and comprehensive income. During the years ended December 31, 2019 and 2018, the Company recognized \$215,307 and \$0, respectively, of contract liabilities included in the opening balances of advance from customers. The amount was included in other income in the accompanying consolidated statements of income and comprehensive income.

Cost of Revenue and Deferred Cost of Revenue

The Company’s cost of revenues primarily consists of (i) materials and equipment costs, (ii) compensation and related overhead expenses for personnel involved in the customization of its products, delivery, installation and maintenance and services (“compensation and overhead costs”), (iii) contractor costs, and (iii) depreciation of equipment used in operations.

For products revenue and projects revenue, all costs associated with the sales are expensed when revenues are recognized. For service revenue, when revenue is recognized over time in accordance with the Company’s revenue recognition policies, total costs are deferred and amortized over the same period that associated service revenue is recognized. The costs incurred but not expensed yet are recognized as “Deferred cost of revenue” in the accompanying consolidated balance sheets. As of December 31, 2019 and 2018, deferred cost of revenue totaled \$221,737 and \$343,090, respectively.

Government Grants

Government grants include cash subsidies received from the PRC government. Such subsidies are issued by the local government to encourage innovation, technology development, research and development. The government grant is recognized in the consolidated statements of income and comprehensive income when cash is received and the relevant performance criteria specified are met. In the years ended December 31, 2019, 2018 and 2017, the Company received government grants of approximately \$1,033,030, \$628,000, and \$487,000, and recognized approximately \$946,164, \$628,000, and \$514,000 (including \$ 27,000 granted in 2015 and received in 2017), in the consolidated statements of income and comprehensive income, respectively.

Research and Development

Research and development costs are expensed as incurred. The costs primarily consist of raw materials purchased and consumed in experiments, product testing and other research and development activities and salaries and fees paid for the development and improvement of the Company's products and systems. Research and development costs for the years ended December 31, 2019, 2018 and 2017 were \$1,826,346, \$2,654,513 and \$1,355,648, respectively.

Selling Expenses

Selling expenses consist primarily of advertising, salaries, travelling and shipping and handling costs incurred during the selling activities. Advertising and transportation expenses are charged to expense as incurred.

Advertising costs in the amounts of \$57,245, \$6,376, and \$1,519 for the years ended December 31, 2019, 2018 and 2017, respectively, are included in selling expenses.

Shipping and handling costs amounting to \$87,082, \$35,326, and \$14,178 for the years ended December 31, 2019, 2018 and 2017, respectively, are included in selling expenses.

Income Taxes

The Company accounts for income taxes under the provision of FASB ASC 740-10, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Comprehensive Income/Loss

ASC 220 "Comprehensive Income" established standards for reporting and display of comprehensive income/loss, its components and accumulated balances. Components of comprehensive income/loss include net income/loss and foreign currency translation adjustments. As of December 31, 2019 and 2018, the only component of accumulated other comprehensive income/loss was foreign currency translation adjustments.

Concentration of Credit Risk

Financial instruments the Company holds that are subject to concentrations of credit risk are cash, restricted cash, notes receivables and accounts receivable arising from its normal business activities. The Company places its cash and restricted cash in what it believes to be credit-worthy financial institutions. The Company routinely assesses the credit status of its customers and, based upon factors surrounding the credit risks, establishes an allowance, if required, for uncollectible accounts. The company believes its notes receivable and accounts receivable credit risk exposure beyond such allowance is limited.

Related Parties Transactions

A related party is generally defined as (i) any person that holds 10% or more of the Company's securities and their immediate families, (ii) the Company's management, (iii) someone that directly or indirectly controls, is controlled by or is under common control with the Company, or (iv) anyone who can significantly influence the financial and operating decisions of the Company. A transaction is considered as a related party transaction when there is a transfer of resources or obligations between related parties. Related parties may be individuals or corporate entities.

Segment Reporting

The Company uses the "management approach" in determining reportable segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company's reportable segments. The Company's chief operating decision maker has been identified as the chief executive officer of the Company who reviews financial information of operating segments based on U.S. GAAP. The chief operating decision maker now reviews analysis reports on a customer-by-customer basis. This analysis is only presented at the revenue level with no allocation of direct or indirect costs. Consequently, the Company has determined that it has only one reportable segment.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments—Credit Losses”. The standard, including subsequently issued amendments (ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10 and ASU 2019-11), requires a financial asset measured at amortized cost basis, such as accounts receivable and certain other financial assets, to be presented at the net amount expected to be collected based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and requires the modified retrospective approach. Early adoption is permitted. The Company is evaluating the impact of this guidance on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12 - Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This ASU provides an exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. This update also (1) requires an entity to recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, (2) requires an entity to evaluate when a step-up in the tax basis of goodwill should be considered part of the business combination in which goodwill was originally recognized for accounting purposes and when it should be considered a separate transaction, and (3) requires that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The standard is effective for the Company for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In February 2020, the FASB issued ASU 2020-02, “Financial Instruments – Credit Losses (Topic 326) and Leases (topic 842) Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (topic 842)”. This ASU provides guidance regarding methodologies, documentation, and internal controls related to expected credit losses. This ASU is effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. The Company is evaluating the impact of this guidance on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “*Fair Value Measurement (Topic 820), – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*,” which makes a number of changes meant to add, modify or remove certain disclosure requirements associated with the movement amongst or hierarchy associated with Level 1, Level 2 and Level 3 fair value measurements. The amendments in this Update modify the disclosure requirements on fair value measurements based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, including the consideration of costs and benefits. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments are effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the potential impacts of ASU 2018-13 on its consolidated financial statements.

Note 3 – RESTRICTED CASH

The current portion of restricted cash includes the bank deposit pledged for the bank acceptance notes issued to suppliers in the amount of \$488,029, cash deposits pledged in exchange for guarantee service provided by third parties in the amount of \$33,148, and certificate of deposits of \$3,500,000 in the Newater HK’s offshore bank account pledged for the short-term loan of \$2,961,307 (RMB 21,000,000) from Industrial and Commercial Bank of China. Also see Note 11 for details on the loan. As of December 31, 2019 and 2018, the Company had current portion of restricted cash of \$4,021,177 and \$6,033,482, respectively.

Note 4 – ACCOUNTS RECEIVABLE, NET

The net book value of accounts receivable consisted of the following as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Accounts receivable	\$ 11,895,600	\$ 10,535,495
Less: Allowance for doubtful accounts	(601,975)	(470,648)
Accounts receivable, net	\$ 11,293,625	\$ 10,064,847

The movement of allowance for doubtful accounts consisted of the following:

	December 31, 2019	December 31, 2018
Allowance for doubtful accounts, beginning balance	\$ 470,648	\$ 140,282
Increase	137,435	337,913
Decrease	-	-
Effects of foreign exchange rate	(6,108)	(7,547)
Allowance for doubtful accounts, ending balance	\$ 601,975	\$ 470,648

Certain accounts receivable have been pledged to obtain long-term loans. See note 11 for details

Note 5 – INVENTORIES

At December 31, 2019 and 2018, inventories consisted of the following:

	December 31, 2019	December 31, 2018
Raw materials	\$ 4,828,273	\$ 5,029,535
Work in process	8,742,220	8,586,643
Finished goods	144,876	146,781
	<u>13,715,369</u>	<u>13,762,959</u>
Less: write-down of inventories	-	-
Inventories	<u>\$ 13,715,369</u>	<u>\$ 13,762,959</u>

During the year ended December 31, 2019 and 2018, inventories in the amount of \$2,791,339 and \$1,566,314 were transferred into properties and equipment as the Company changed the use of the inventories into productive assets, respectively.

Note 6 – ADVANCES TO SUPPLIERS AND OTHER CURRENT ASSETS, NET

As of December 31, 2019 and 2018, advances to suppliers and other current assets consisted of the following:

	December 31, 2019	December 31, 2018
VAT-input	\$ 69,388	\$ 447,766
Deposits	294,242	1,232,632
Prepaid expense	1,017,531	368,586
Others	72,450	592,898
Total other current assets	1,453,611	2,641,882
Advances to suppliers	3,776,962	2,322,685
Total	5,230,573	4,964,567
Less: allowance for doubtful accounts	(530,818)	(60,277)
Advances to suppliers and other current assets, net	\$ 4,699,755	\$ 4,904,290

Other current assets include the value added tax pending for deduction and verification, advances to employees for business travel and other miscellaneous receivables such as utility fees, social insurance, personal income tax paid in advance on behalf of employees, prepayments made to service providers and property, plant and equipment suppliers and deposits, which include guarantee deposits, rent deposits and security deposits for bidding customer projects.

Note 7 – PROPERTY, PLANT AND EQUIPMENT, NET

As of December 31, 2019 and 2018, property, plant and equipment consisted of the following:

	December 31, 2019	December 31, 2018
Machinery equipment	\$ 9,860,468	\$ 1,880,505
Electronic equipment	245,366	167,618
Office equipment	289,473	156,996
Motor vehicles	1,057,208	1,612,293
Buildings	10,666,163	3,922,383
Computer software	108,105	92,336
Kitchen and cookware	111,010	-
Construction in progress	465,217	10,238,835
Leasehold improvements	74,762	75,745
Membrane cushion	390,660	216,901
Wastewater treatment system, except for membrane cushion	3,348,847	1,289,780
Total property, plant and equipment	26,617,279	19,653,392
Less: accumulated depreciation	(2,005,417)	(900,052)
Property, plant and equipment, net	<u>\$ 24,611,862</u>	<u>\$ 18,753,340</u>

During the year ended December 31, 2019, the liabilities assumed in connection with purchase of property, plant and equipment totaled \$2,980,582. The liabilities were included in accrued expenses and other payables in the accompanying consolidated balance sheets as of December 31, 2019.

Depreciation expense for the years ended December 31, 2019, 2018 and 2017, was \$1,505,747, \$512,333 and \$188,995, respectively.

Certain property, plant and equipment have been pledged to obtain long-term loans. See Note 11 for details.

Note 8 – LAND USE RIGHTS, NET

As of December 31, 2019 and 2018, land use rights consisted of the following:

	December 31, 2019	December 31, 2018
Cost	\$ 2,158,848	\$ 2,187,229
Less: accumulated amortization	(150,752)	(108,989)
Land use rights, net	<u>\$ 2,008,096</u>	<u>\$ 2,078,240</u>

Amortization expense for the years ended December 31, 2019, 2018 and 2017 was \$43,549, \$45,994 and \$44,498, respectively.

The land use rights have been pledged to obtain short term loans and other guarantees. See Note 11 for details.

Note 9 – LONG-TERM INVESTMENTS

On August 2, 2019, the Company invested RMB 1,000,000 (approximately \$144,361) in Yantai Hengqingyuan Eco-Technology Co., Ltd. (“Hengqingyuan”), an environmental technology development company that was newly established in 2019, representing a 20% equity interest in Hengqingyuan. Yantai Guotai Investment Co., Ltd., a government-controlled entity, owned the other 80% equity interest of Hengqingyuan. The investment was accounted for as an equity method in accordance with ASC 323. The Company recognized its proportionate share of Hengqingyuan’s net loss in the amount of \$17,023 into the consolidated statements of income and comprehensive income.

On December 31, 2019, the Company invested RMB 20,000,000 (approximately \$2,870,758) in Yantai Jincai Eco-Technology Co., Ltd (“Jincai”), an environmental technology development company that was newly established in 2019, representing a 40% equity interest in Jincai. Yantai Caijin Investment Holdings Co. (“Caijin”), a government-controlled entity, owned the other 60% equity interest of Jincai. The investment was accounted for as equity method in accordance with ASC 323.

The tables below present the summarized financial information, as provided to the Company by the investees, for the unconsolidated entities accounted for by the equity method.

	December 31, 2019	
	Hengqingyuan	Jincai
Current assets	\$ 278,188	\$ 7,176,896
Noncurrent assets	1,831,102	-
Current liabilities	8	-
Noncurrent liabilities	1,435,379	-
Equity	673,903	7,176,896

	<u>Hengqinyuan</u>	<u>Jincai</u>
	For the Period from August 2, 2019 (Date of Investment) through December 31, 2019.	For the Period from December 31, 2019 (Date of Investment) through December 31, 2019.
Operating expenses	\$ (120,002)	\$ -
Loss from operations	(120,002)	-
Net loss	\$ (44,164)	\$ -

On March 20, 2020, Jincai entered into a loan agreement with Shanghai Pudong Development Bank to borrow approximately \$14,100,000 (RMB 100,000,000) due on March 19, 2023 for business purpose. The loan bears an annual interest rate of approximately 5.225% payable monthly. The loan is guaranteed by Jincai's owner, Caijin and Jinzheng. The loan is also jointly guaranteed by Yuebiao Li and his wife.

Note 10 – DEFERRED TAX ASSETS, NET

The components of the deferred tax assets are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Deferred tax assets (liabilities), non-current		
Unpaid accrued expenses	\$ 56,262	\$ 50,600
Warranty	49,594	49,090
Allowance for doubtful accounts	263,566	79,639
Others	(658,109)	424,735
Deferred tax assets (liabilities), non-current	<u>(288,687)</u>	<u>604,064</u>
Less: valuation allowance	-	-
Deferred tax assets (liabilities), non-current	<u>\$ (288,687)</u>	<u>\$ 604,064</u>

Deferred taxation is calculated under the liability method in respect of taxation effect arising from all timing differences, which are expected with reasonable probability to realize in the foreseeable future. The Company's subsidiary registered in the PRC is subject to income taxes within the PRC at the applicable tax rate.

Note 11 – LOANS

Loans and related guarantees are comprised of the following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Industrial and Commercial Bank of China, Yantai Economic Development Zone Branch	\$ 3,014,296	\$ 4,362,748
Bank of China, Yantai Bonded Port Area Branch	1,148,303	1,163,399
Huaxia Bank Co., Ltd., Yantai Xingfu Branch	-	1,454,250
Agricultural Bank of China, Yantai Laishan Branch	1,291,841	-
Postal Savings Bank of China, Yantai Laishan Branch	2,066,946	-
Qingdao Yikou Industrial Automation Equipment Co., Ltd.	83,252	157,059
Qingdao Hongjatai Machinery Engineering Co., Ltd.	-	305,392
Yantai Guotai Investment Limited Company ("Yantai Guotai")	-	727,125
Volkswagen Finance (China) Co., Ltd.	-	10,455
Total short term loans	7,604,638	8,180,428
Bank of Qingdao, Yantai Branch	-	3,635,623
Qingdao Metro Finance Leasing Co., Ltd.	4,306,138	3,635,623
ZGC Sci-Tech Leasing Co., Ltd	1,436,251	-
Volkswagen Finance (China) Co., Ltd.	-	23,638
Total loans	13,347,027	15,475,312
Less: short term loans and current portion of long term loans	11,809,449	10,867,111
Less: unamortized debt issuance costs	160,361	158,312
Long term loans - due over one year	<u>\$ 1,377,217</u>	<u>\$ 4,449,889</u>

On November 1, 2017, the Company entered into a loan agreement with the Bank of China, Yantai Bonded Port Area Branch to borrow approximately \$1,230,000 (RMB 8,000,000) due on November 1, 2018 for working capital purposes. The loan bears an annual interest rate of 5.873% payable quarterly in arrears and pledged with an apartment owned by Yue Zhang. The loan was also jointly guaranteed by Yantai Runtai Medical Co., Ltd. ("Runtai"), Yuebiao Li and his wife, Xiaojun Chen, husband of Zhuo Zhang, and Yue Zhang. The Company paid off the loan in full on October 17, 2018. On October 29, 2018 the Company entered into another loan with the same bank in the amount of approximately \$1,148,000 (RMB 8,000,000) due on October 28, 2019 for working capital purposes. On March 20, 2019 the Company paid off the loan in full and on March 21, 2019, the Company renewed the loan agreement with the same principal amount and extended the maturity to March 20, 2020. According the new agreement, the loan bears an annual interest rate of 4.860% payable quarterly and pledged with an apartment owned by Yue Zhang. The loan was also jointly guaranteed by Yuebiao Li and his wife.

On June 28, 2017, the Company entered into a loan agreement with the Huaxia Bank Co., Ltd. Yantai Xingfu Branch to borrow approximately \$1,537,000 (RMB 10,000,000) at an annual interest rate of 5.655% payable monthly for the period from June 28, 2017 to June 28, 2018. The loan is guaranteed by Runtai, Yuebiao Li and his wife and Zhuo Zhang and her husband. In addition, the Company pledged certain inventories with original cost of approximately \$3,111,000 (RMB 20,240,449). The Company paid off the loan in full on June 29, 2018. On July 3, 2018, the Company entered into another loan agreement with the same bank to borrow approximately \$1,507,000 (RMB 10,000,000) at an annual interest rate of 5.655% payable monthly for the period from July 3, 2018 to July 3, 2019. The loan is guaranteed by Runtai. The Company paid off the loan on July 3, 2019.

On August 29, 2017, the Company entered into a loan agreement with Bank of Qingdao, Yantai Branch to borrow approximately \$1,537,000 (RMB 10,000,000) for working capital purposes. The loan is due on August 28, 2018 with a fixed annual interest rate of 5.655%. The loan is guaranteed by Yantai Financing Guarantee Co., Ltd., Yuebiao Li and his wife, and Zhuo Zhang. The land use rights transferred from Yantai Aotesai Energy Ltd. were pledged to obtain the guarantee provided by Yantai Financing Guarantee Co., Ltd. The Company paid off the loan in full on May 7, 2018. On May 30, 2018, the Company entered into a three-year loan agreement with Bank of Qingdao, Yantai Branch to borrow approximately \$3,894,514 (RMB 25,000,000) for the construction of a plant. The loan is due on May 30, 2021 with an annual interest rate of 6.5000% payable monthly. The loan was guaranteed by Yuebiao Li and pledged by the construction in progress of the Company with original book value of approximately \$6,795,983 (RMB 46,731,900).

On September 28, 2017, the Company entered into a loan agreement to borrow approximately \$4,610,845 (RMB 30,000,000) from Industrial and Commercial Bank of China, Yantai Economic Development Zone Branch, for the period from September 28, 2017 to September 25, 2018. The loan bears an annual interest rate of 5.003% and is pledged with a certificate of deposit in the amount of \$5,100,000 using the funds from its IPO by Newater HK. The loan was repaid in full on September 30, 2018. On September 30, 2018, the Company entered into two loan agreements to borrow approximately \$1,165,000 (RMB 8,000,000) and \$3,204,000 (RMB 22,000,000) from the same bank, respectively. The Company paid off the loans in October 2019. On September 30, 2019 and December 9, 2019, the Company entered into two loan agreements to borrow approximately \$1,824,459 (RMB 13,000,000) and \$1,136,846 (RMB 8,000,000) from the same bank, respectively. These two loans bear annual interest rates of 4.350% and 4.785%, respectively, and are pledged with certificates of deposit in the total amount of \$3,500,000 using the funds from the IPO by Newater HK. The amount of the certificates of deposit were included in restricted cash, current portion in the consolidated balance sheets.

On July 16, 2018, the Company entered into a loan agreement to borrow approximately \$311,154 (RMB 2,080,000) from Qingdao Yikou Industrial Automation Equipment Co., Ltd. for the period from July 16, 2018 to July 15, 2019 with an annual interest rate of 5.500%. The Company repaid approximately \$144,322 (RMB 1,000,000) on November 22, 2018, and \$70,867 (RMB 500,000) on August 9, 2019.

On July 13, 2018, the Company entered into a loan agreement to borrow approximately \$1,032,374 (RMB 6,900,000) from Qingdao Hongjiatai Machinery Engineering Co., Ltd. for the period from July 13, 2018 to July 12, 2019 with an annual interest rate of 5.50%. The Company paid off this loan in full as of December 31, 2019.

On December 24, 2018, the Company entered into a loan agreement to borrow approximately \$725,000 (RMB 5,000,000) from Yantai Guotai for the period from December 24, 2018 to December 13, 2019 with an annual interest rate of 9.000% payable monthly. The Company paid off this loan in full as of December 2019.

During the year ended December 31, 2018, the Company obtained three short-term loans from Yantai Zexin Environmental Science and Technology Co., Ltd. in the total amount of approximately \$2,401,000 (RMB 16,000,000) for working capital purposes. These loans bear annual interest rates of 6.000% payable monthly. As of December 31, 2018, the Company has paid off the loans in full.

On November 8, 2017, the Company entered into two loans agreements with Volkswagen Finance (China) Co., Ltd. ("Volkswagen Loans") in connection with acquisition of vehicles with net book value of \$55,822 (RMB 363,200), which were pledged to secure the loans. The loans bear an effective interest rate of 9.090% per annum and are due in 24 months. The loans obtained pursuant to the agreements totaled \$30,738 (RMB 200,000). For the years ended December 31, 2018 and 2017, the Company repaid in the total amount of approximately \$17,835 (RMB 117,974) and \$1,556 (RMB 10,131), respectively. On January 30, 2018, the Company entered into other three loans agreements with Volkswagen Finance (China) Co., Ltd. ("Volkswagen Loans II") in connection with acquisition of vehicles with net book value of approximately \$82,000 (RMB 561,000). The loans bear an effective interest rate of 9.690% per annum and are due in 24 months. The loans obtained pursuant to the agreements totaled \$52,161 (RMB 330,000). For the year ended December 31, 2018, the Company repaid in the total amount of approximately \$28,000 (RMB 167,457). The Company paid off the Volkswagen Loans in full as of December 31, 2019.

On September 16, 2019, the Company entered into a loan agreement to borrow approximately \$1,292,000 (RMB 9,000,000) from Agricultural Bank of China, Yantai Laishan Branch, for the period from September 16, 2019 to August 27, 2020 with an annual interest rate of 4.785%. The loan is guaranteed by Yuebiao Li and Zhuo Zhang, and pledged by the Company's Plant 1 factory located at 1 Ruida Road, Yantai City, Shandong Province and the Company's gatehouse.

On September 11, 2019, the Company entered into a loan agreement to borrow approximately \$2,068,000 (RMB 14,400,000) from China Post Savings Bank, Yantai Laishan Branch, for the period from September 11, 2019 to September 10, 2020 with an annual interest rate of 4.785%. The loan is guaranteed by Yuebiao Li, and pledged by the No. 3 office building located at 1 Ruida Road, Yantai City, Shandong Province and the Company's gatehouse.

On April 28, 2018, the Company obtained a loan from Qingdao Metro Leasing Co., Ltd. ("Qingdao Metro Loan I") in the amount of approximately \$4,736,979 (RMB 30,000,000). The loan bears an annual interest rate of 6.00% payable quarterly and is due in 36 months. The loan is guaranteed by Yuebiao Li and his wife, Zhuo Zhang and her husband and pledged by the Company's equipment in the original cost of approximately \$6,019,799 (RMB 38,124,292). In addition, the loan is also pledged by the 30% equity ownership of Jinzheng owned by Newater HK. The Company paid a security deposit of approximately \$473,698 (RMB 3,000,000) and debt issuance costs of approximately \$284,219 (RMB 1,800,000) in cash. On January 15, 2019, the Company obtained another two-year loan from Qingdao Metro Leasing Co., Ltd ("Qingdao Metro Loan II") in the amount of \$4,440,245 (RMB30,000,000). The loan is guaranteed by Yuebiao Li and his wife, Zhuo Zhang and her husband and pledged by the Company's equipment in the original cost of approximately \$5,808,000 (RMB40,460,000) and accounts receivable from a customer. In addition, the loan is also pledged by the 30% equity ownership of Jinzheng owned by Newater HK. As of December 31, 2019, current portion of Qingdao Metro Loan I and Qingdao Metro Loan II totaled \$3,593,445 (RMB25,034,817) and the long term portion totaled \$712,692 (RMB4,965,183). The balance was presented in the balance of the accompanying consolidated balance sheet, including \$122,280 (RMB851,900) of unamortized debt issuance costs which was included in the balance of loans due over one year in the accompanying consolidated balance sheet.

On March 29, 2019, the Company obtained a loan from ZGC Sci-Tech Leasing Co., Ltd. in the amount of approximately \$1,936,000 (RMB 13,000,000). The loan bears an annual interest rate of 7.20% payable quarterly and is due in 36 months. The loan is pledged by the Company's wastewater treatment equipment in the original cost of approximately \$2,510,000 (RMB 17,486,660) and by the accounts receivable from two wastewater treatment projects. The loan is further guaranteed by Yuebiao Li and Zhuo Zhang. As of December 31, 2019, current portion of the loan totaled \$611,364 (RMB 4,259,253) and the long term portion totaled \$824,886 (RMB 5,746,819). The balance was presented in the balance of the accompanying consolidated balance sheet, including \$38,081 (RMB265,303) of unamortized debt issuance costs, which were included in the balance of loans due over one year in the accompanying consolidated balance sheet.

As of December 31, 2019, the Company's future loan obligations according to the terms of the loan agreement are as follows:

2020	\$ 11,809,449
2021	1,368,457
2022	169,122
2023	-
2024 and thereafter	-
Total	\$ 13,347,028

During the year ended December 31, 2019, the total interest cost incurred was \$1,430,295, of which \$1,087,051 was recognized as expense and \$343,244 was capitalized in the construction of property, plant and equipment. During the years ended December 31, 2018 and 2017, the total interest cost incurred and charged to expense was \$658,290 and \$242,707, respectively.

Note 12 – OPERATING LEASE

The Company entered into various operating lease agreements for agencies outside Yantai City, Shandong Province, and its old factory in Yantai City. The remaining lease term of the Company's leases ranges from approximately 4 to 36 months. The estimated effect of lease renewal and termination options, as applicable, was included in the consolidated financial statements in current period.

The Components of lease expense were as follows:

	For the year ended December 31, 2019
Operating lease Cost:	
Amortization of right-of-use assets	\$ 41,935
Interest on lease liabilities	7,891
Total long term operating lease cost	49,826
 Short term operating lease cost	
	\$ 52,632

Supplemental cash flow information related to leases was as follows:

	For the year ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flow from operating leases	\$ 75,960
Right-of-use assets obtained in exchange for new lease obligations	
Operating leases	\$ 36,773

Supplemental balance sheet information related to leases was as follows:

	For the year ended December 31, 2019
Operating lease right-of-use assets	141,016
Operating lease liabilities-current	56,852
Operating lease liabilities, non-current	68,420
Total operating lease liabilities	125,272
Weighted-average remaining lease term	2.81
Weighted-average discount rate	6.00%

The following table summarizes the maturity of our operating lease liabilities as of December 31, 2019:

2020	\$ 62,520
2021	35,884
2022	35,884
Thereafter	-
Total	134,288
Less: imputed interest	9,016
Total lease liabilities	\$ 125,272

Note 13 – RELATED PARTY TRANSACTIONS

The Company had transactions with the following related parties in the years ended December 31, 2019, 2018 and 2017:

Name of Related Party	Nature of Relationship
Yuebiao Li	Principal shareholder, Chairman of the Board and Chief Executive Officer (“CEO”)
Zhuo Zhang	Principal shareholder, Director, Chief Financial Officer (“CFO”)
Yue Zhang	Principal shareholder, Zhuo Zhang’s sister
Xiaojun Chen	Husband of Zhuo Zhang
Heilongjiang Binteer Environmental Protection Equipment Manufacturing Co., Ltd. (“Heilongjiang Binteer”)	Established by Yuebiao Li, in May 2014, Mr. Li transferred his 60% equity interest to his brother, Yuefeng Li. Yuefeng Li then transferred his 60% equity interest to a third party individual for zero consideration in March 2016.
Daqing Wanjiayuan Water Treatment Equipment Sales Co., Ltd. (“Daqing Wanjiayuan”)	Controlled by Yuebiao Li, the entity was dissolved in June 2017.
Mojie Technology (Beijing) Co., Ltd. (“Mojie”)	Established and controlled by Yuebiao Li and Zhuo Zhang. All of the equity interest was transferred to a third party in July 2015. The entity was dissolved in February 2019.
Yantai Jinna Commerce Co., Ltd. (“Jinna”)	Significantly influenced by Yue Zhang, principal shareholder and sister of Zhuo Zhang. Jinna was dissolved during 2016.
Shandong Jinmo Recycled Water Resource Co., Ltd. (“Jinmo”)	A subsidiary that was incorporated on March 19, 2015 and disposed on December 8, 2016 for consideration of RMB 220,000 (approximately \$31,678) to Entity A.
Yantai Hengqingyuan Eco- Technology Co., Ltd (“Hengqingyuan”)	Jinzheng holds 20% equity interest.
Yantai Jincai Eco-Technology Co., Ltd (“Jincai”)	Jinzheng holds 40% equity interest.
Entity A and its subsidiaries	Entity A is 45% owned by Entity D
Entity B	Significantly influenced by the Company
Entity C	Significantly influenced by the Company
Entity D and its subsidiary	Significantly influenced by the Company

Revenues from related parties and accounts receivable - related parties, net

The Company primarily provides products such as membranes, components and wastewater filtration equipment to Heilongjiang Binteer, Hengqingyuan, Entity A and its subsidiaries, and Entity D’s subsidiary. For the years ended December 31, 2019, 2018 and 2017, the Company generated total net related party revenues in the amount of \$13,857,014, \$21,066,741 and \$9,146,994, respectively. The net accounts receivable from related parties amounted to \$2,392,087 and \$1,948,009 as of December 31, 2019 and 2018, respectively.

Net revenues from related parties consisted of the following:

	For the Years Ended December 31,		
	2019	2018	2017
Heilongjiang Binteer	\$ 6,792	\$ -	\$ -
Hengqingyuan	1,921,811	-	-
Entity A and its subsidiaries	11,030,663	20,750,159	8,917,627
Entity B	-	107,894	229,367
Entity D’s subsidiary	897,748	208,688	-
Net revenues from related parties	<u>\$ 13,857,014</u>	<u>\$ 21,066,741</u>	<u>\$ 9,146,994</u>

Accounts receivable from related parties consisted of the following:

	For the Years Ended December 31,	
	2019	2018
Entity A and its subsidiaries	\$ 1,460,103	\$ 1,286,405
Entity B	624,312	661,604
Entity D's subsidiary	931,984	-
Accounts receivable from related parties	3,016,399	1,948,009
Less: allowance for doubtful accounts	(624,312)	-
Accounts receivable from related parties, net	<u><u>\$ 2,392,087</u></u>	<u><u>\$ 1,948,009</u></u>

The movement of allowance for doubtful accounts for accounts receivable from related parties consisted of the following:

	For the Years Ended December 31,	
	2019	2018
Allowance for doubtful account, beginning balance	\$ -	\$ 135,946
Increase	624,312	-
Decrease	-	(128,631)
Effects of foreign exchange rate	-	(7,315)
Allowance for doubtful accounts, ending balance	<u><u>\$ 624,312</u></u>	<u><u>\$ -</u></u>

Advances from customers - related parties

As of December 31, 2019 and 2018, advances from customers - related parties amounted to \$7,254,968 and \$586,719, respectively, as follows:

	For the Years Ended December 31,	
	2019	2018
Entity A and its subsidiaries	\$ 72,904	\$ 583,894
Heilongjiang Binteer	5,167	-
Entity D's subsidiary	-	2,825
Jincai	7,176,897	-
Advances from customers – related parties	<u><u>\$ 7,254,968</u></u>	<u><u>\$ 586,719</u></u>

Materials supplied by related parties, service provided by related parties and accounts payable to related parties

The Company purchased membrane modules, membrane filters, and other components of water treatment equipment from Entity D's subsidiary. For the years ended December 31, 2019, 2018 and 2017, the total purchase from related parties amounted to \$2,112,484, \$1,592,537 and \$0, respectively. The Company also subcontracted wastewater treatment service to Entity C, Entity D's subsidiaries, Entity A and its subsidiary. For the years ended December 31, 2019, 2018 and 2017, the services provided by related parties amounted to \$12,240,479, \$11,488,801 and \$1,728,642, respectively. The balance of accounts payable to related parties was \$5,225,004 and \$3,389,148 as of December 31, 2019 and 2018, respectively.

Materials supplied by related party consisted of the following:

	For the Years Ended December 31,		
	2019	2018	2017
Entity D's subsidiary	\$ 2,112,484	\$ 1,592,537	\$ -
Total	\$ 2,112,484	\$ 1,592,537	\$ -

Services provided by related parties consisted of the following:

	For the Years Ended December 31,		
	2019	2018	2017
Entity C	\$ 2,536,720	\$ 5,279,255	\$ 1,728,642
Entity A and its subsidiary	7,521,286	5,918,396	-
Entity D's subsidiaries	2,182,473	291,150	-
Total	\$ 12,240,479	\$ 11,488,801	\$ 1,728,642

Accounts payable - related parties consisted of the following:

	December 31,	
	2019	2018
Entity C	\$ 1,318,692	\$ 1,985,136
Entity A and its subsidiary	2,537,333	1,197,328
Entity D's subsidiaries	1,368,979	206,684
Accounts payable – related parties	\$ 5,225,004	\$ 3,389,148

Cost of revenues from related parties – related parties

During the years ended December 31, 2019, 2018 and 2017, materials purchased from and services provided by related parties in the total amount of \$1,450,627, \$5,669,252 and \$0, respectively, were included in cost of revenues from related parties.

Cost of revenues from related parties consisted of the following:

	For the Years Ended December 31,		
	2019	2018	2017
Entity C	\$ -	\$ 4,296,375	\$ -
Entity D's subsidiary	1,450,627	1,372,877	-
Total	\$ 1,450,627	\$ 5,669,252	\$ -

Deposit - related party

During the year ended December 31, 2018, the Company paid \$10,180 to Entity A as security deposit for bidding projects, which was included in deposit - related party in the accompanying consolidated balance sheets. During the year ended December 31, 2019, the Company received deposit in full. As of December 31, 2019 and 2018, the balances of deposit - related party was \$0 and \$10,180.

Due to/from related parties

The balance of due to related parties represents expenses incurred by related parties in the ordinary course of business, expense related parties paid on behalf of the Company as well as the loans the Company obtained from related parties for working capital purposes. The loans owed to the related parties are interest free, unsecured and repayable on demand.

For the year ended December 31, 2018, Yuebiao Li and Zhuo Zhang paid operating expenses on behalf of the Company in the amount of \$9,703 and these payments were fully reimbursed. For the year ended Decmeber 31, 2019, Yuebiao Li and Zhuo Zhang borrowed traveling expenses from the Company that were fully reimbursed as of December 31, 2019. As of December 31, 2019 and 2018, the balance due to/from Yuebiao Li and Zhuo Zhang was \$0.

Note 14 – INCOME TAXES

British Virgin Islands (“BVI”)

Under the current laws of BVI, Newater Technology is not subject to tax on income or capital gain. In addition, payments of dividends by the Company to their shareholders are not subject to withholding tax in the BVI.

United States

The Company’s subsidiary, Newater America is incorporated in the State of Delaware and is subject to United States Federal and state income tax at a statutory rate of 21%. No provision for the U.S Federal income tax has been made as Newater America had no taxable income in this jurisdiction for the reporting periods.

Hong Kong

The Company’s subsidiary, Newater HK, is incorporated in Hong Kong and has no operating profit or tax liabilities during the period. Newater HK is subject to tax at 8.25% on assessable profits up to \$256,410 (HK\$2,000,000) and 16.5% on any part of assessable profits over \$256,410 for the year ended December 31, 2019 and 2018, and 16.5% of the estimated assessable profit for the years ended December 31, 2017.

PRC

The Company’s subsidiaries, Jinzheng, Jinda, Jinzheng – Xi’an and Yantai Nuclear-Power are incorporated in the PRC and are subject to PRC Enterprise Income Tax (“EIT”) on the taxable income in accordance with the relevant PRC income tax laws. On March 16, 2007, the National People’s Congress enacted a new enterprise income tax law, which took effect on January 1, 2008. The law applies a uniform 25% enterprise income tax rate to both foreign invested enterprises and domestic enterprises. According to the tax law, entities that qualify as high technology enterprises (“HNTE”) supported by the PRC government are allowed a 15% preferential tax rate instead of the uniform tax rate of 25%. The qualification of HNTE will be renewed after evaluation by relevant government authorities every three years.

For the years ended December 31, 2019, 2018 and 2017, Jinzheng was qualified as HNTE and is entitled to the preferential tax rate of 15%.

The provision for income taxes consists of the following:

	For the Years Ended December 31,		
	2019	2018	2017
Current	\$ 571,198	\$ 1,775,477	\$ 788,815
Deferred	892,547	(118,198)	(312,997)
Total	\$ 1,463,745	\$ 1,657,279	\$ 475,818

The reconciliations of the statutory income tax rate and the Company’s effective income tax rate are as follows:

	For the Years Ended December 31,		
	2019	2018	2017
HK statutory income tax rate	8.25%	8.25%	16.50%
Valuation allowance recognized with respect to the loss in the HK company	(8.25)%	(8.25)%	(16.50)%
PRC statutory income tax rate	25.00%	25.00%	25.00%
Effect of income tax exemptions and reliefs	-	(8.53)%	(10.00)%
Effect of additional deduction allowed for R&D expense	(5.31)%	(4.39)%	(2.74)%
Effect of expenses not deductible for tax purposes	4.67%	1.44%	0.81%
Others	(1.40)%	-	2.45%
Total	22.96%	13.52%	15.52%

Accounting for Uncertainty in Income Taxes

The tax authority of the PRC government conducts periodic and ad hoc tax filing reviews on business enterprises operating in the PRC after those enterprises complete their relevant tax filings. Therefore, the Company’s PRC entities’ tax filings results are subject to change. It is therefore uncertain as to whether the PRC tax authority may take different views about the Company’s PRC entities’ tax filings, which may lead to additional tax liabilities.

ASC 740 requires recognition and measurement of uncertain income tax positions using a “more-likely-than-not” approach. The management evaluated the Company’s tax positions and concluded that no provision for uncertainty in income taxes was necessary as of December 31, 2019 and 2018.

Note 15 – STATUTORY RESERVES

According to the Company Law in the PRC, companies are required to set aside 10% of their after-tax profit to general reserves each year, based on the PRC accounting standards, until the cumulative total of such reserves reaches 50% of the registered capital. These general reserves are not distributable as cash dividends to equity owners. The Company had appropriated \$2,267,219 and \$1,765,711 to statutory reserves as of December 31, 2019 and 2018, respectively.

Note 16 – STOCKHOLDERS’ EQUITY

The stockholders’ equity structures as of December 31, 2015 was presented after giving retroactive effect to the reorganization of the Company that was completed in the first quarter of 2016.

On September 30, 2015, Newater Technology was incorporated in the British Virgin Islands. On the same day, the Company issued 10,000 common shares at \$0.001 per share to its incorporator with cash proceeds of \$10. On March 27, 2016, the Company issued 73,000 common shares at \$0.65 per share to the incorporator with total cash proceeds of \$47,450.

On March 27, 2016, a total of 8,117,000 shares were issued at \$0.65 per share, to six individuals and seven companies with total cash proceeds of \$5,276,050 received, among which \$4,418,425 was distributed to the former owners of Jinzheng to acquire 100% of its equity interest.

On June 6, 2016, the Company converted loans of \$3,077,000, owed to three third party individuals, to 724,000 common shares at \$4.25 per share. On the same day, the Company converted a loan of \$770,000, owed to another third party individual, to 275,000 common shares at \$2.80 per share. As a result, the Company had 9,199,000 common shares outstanding with par value of \$0.001 per share before the initial public offering.

On August 2, 2017, the Company completed its initial public offering on the NASDAQ Capital Market under the symbol of “NEWA”. The Company offered 1,400,000 common shares at \$5 per share. Net proceeds raised by the Company from the initial public offering amounted to \$6,145,325 after deducting underwriting discounts and commissions and other offering expenses. Out of the \$6.1 million net proceeds, \$500,000 was deposited into an escrow account to satisfy the initial \$500,000 in potential indemnification obligations arising during an escrow period of two years following the closing date of August 2, 2017 and was presented as restricted cash, in the accompanying consolidated balance sheets. On August 3, 2017, the Company sold additional 210,000 common shares at \$5 per share. Net proceeds raised by the Company amounted to \$966,000 after deducting underwriting discounts. As a result, the Company raised a total of \$7,111,325 from issuance of common shares in the year ended December 31, 2017.

As of the filing date, there was a total number of 10,809,000 shares outstanding.

Note 17 – EARNINGS PER SHARE

The following table presents a reconciliation of basic and diluted net income per share for the years ended December 31, 2019, 2018 and 2017:

	For the Years Ended December 31,		
	2019	2018	2017
Net income available to common shareholders for basic and diluted net income per common share	\$ 4,311,547	\$ 7,211,429	\$ 2,590,931
Weighted average common shares outstanding – basic	10,809,000	10,809,000	9,864,479
Effect of dilutive securities:			
Warrants issued to third party	-	-	-
Weighted average common shares outstanding – diluted	10,809,000	10,809,000	9,864,479
Net income per common share – basic	\$ 0.40	\$ 0.67	\$ 0.26
Net income per common share – diluted	\$ 0.40	\$ 0.67	\$ 0.26

Note 18 – CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS AND SUPPLIERS

Customers

For the years ended December 31, 2019, 2018 and 2017, customers accounting for 10% or more of the Company's revenue were as follows:

Customer	For the Years Ended December 31,		
	2019	2018	2017
Everbright Environmental Energy (Jinan) Co., Ltd	12.81%	*%	*%
Entity A, a related party	28.21%	40.25%	35.19%
Government of Jiangshan Town, Laixi District, Qingdao City, Shandong Province, PRC ("Jiangshan Town")	*%	35.87%	31.70%
Beijing Aritime Intelligent Control Co., Ltd. ("Beijing Aritime")	*%	*%	13.34%

* Less than 10%

Liaoning Beifang Environmental Protection Co., Ltd, Jiangshan Town, and Changchun Guangtaiyuan Environmental Protection Technology Co., Ltd accounted for 25.20% and 11.89% and 10.17% of the total current outstanding accounts receivable as of December 31, 2019, respectively.

Jiangshan Town, Liaoning Beifang Environmental Protection Co., Ltd., Yantai Urban Administration Bureau and Entity A's subsidiary, a related party, accounted for 29.18%, 11.32%, 12.76% and 10.22% of the total current outstanding accounts receivable as of December 31, 2018, respectively.

Suppliers

For the years ended December 31, 2019, 2018 and 2017, suppliers accounting for 10% or more of the Company's purchase were as follows:

Supplier	For the Years Ended December 31,		
	2019	2018	2017
Dalian Huarui Heavy Industry Group Limited by Share Ltd. ("Dalian Huarui")	*%	*%	43.35%
Entity A, a related party	12.47%	14.70%	*%

Entity A, a related party, and Entity C, a related party accounted for 10.26% and 19.75% of the total accounts payable and bank acceptance notes to vendors as of December 31, 2019, respectively.

Entity C, a related party, accounted for 22.71% of the total accounts payable and bank acceptance notes to vendors as of December 31, 2018.

Note 19 – SEGMENTAL AND REVENUE ANALYSIS

The Company operates in a single operating segment that includes the selling of water purifying membranes and water purification equipment (products), developing, installing and selling of water purification projects (projects) and providing water treatment service such as landfill leachate treatment and purification service (services).

The net revenues consist of the following:

	For the Years Ended December 31,		
	2019	2018	2017
Products	\$ 2,152,846	\$ 1,387,955	\$ 3,771,573
Projects	16,906,709	6,223,293	4,425,596
Services	4,657,423	18,362,715	7,995,334
Net revenues	23,716,978	25,973,963	16,192,503
Products – related parties	796,121	304,938	229,367
Projects – related parties	13,060,893	20,761,803	8,917,627
Net revenues from related parties	13,857,014	21,066,741	9,146,994
Total net revenues	\$ 37,573,992	\$ 47,040,704	\$ 25,339,497

All of the Company's long-lived assets are located in the PRC.

Note 20 – CONTINGENCIES

The Company provided two guarantees for the loans borrowed by Yantai Runtai Medical Co., Ltd. from Weihai Commercial Bank in the amount of approximately \$782,607 (RMB5,000,000) and \$737,800 (RMB5,000,000) for the period from June 7, 2018 and May 9, 2020 until two years after the due date of the loan, respectively.

The Company provided a guarantee for a loan borrowed by Jincai from Shanghai Pudong Development Bank in the amount of approximately \$14,427,932 (RMB100,000,000) for a period from March 9, 2020 until two years after the due date of the loan.

In November 2017, Beijing Tiandiren Environ-Tech Company Limited brought a lawsuit against Jinzheng in Beijing Intellectual Property Court in Beijing, China, alleging that Jinzheng infringed their patent on manufacturing DTNF membranes. The plaintiff claimed total damages in the amount of \$153,695 (RMB 1,000,000). The Company is vigorously defending itself against the claim and has filed an application for invalidation to the patent review committee of the State Intellectual Property Office ("SIPO"). On March 19, 2019, SIPO has declared the claimed patent to be wholly invalid. On April 29, 2019, Beijing Intellectual Property Court rejected the claim in the first instance.

Note 21 – SUBSEQUENT EVENTS

In January 2020, the Company and Cajin invested additional RMB 20,000,000 (approximately \$2,873,000) and RMB30,000,000 (approximately \$4,310,000) in Jincai, respectively. The equity interest of Jincai owned by the Company remained at 40% as disclosed in Note 9.

On February 18, 2020, the Company entered into a loan agreement with Bank of China, Yantai Bonded Port Area Branch, to borrow approximately \$1,146,000 (RMB 8,000,000). The loan bears an annual interest rate of 4.25% payable quarterly and pledged with an apartment owned by Yue Zhang. The loan is guaranteed by Yuebiao Li and his wife.

On March 24, 2020, the Company entered into a loan agreement with China CITIC Bank, Laishan Branch, to borrow approximately RMB 20,000,000 (approximately \$2,819,000), for the period from March 24, 2020 to March 23, 2021 with an annual interest rate of 5.000%. In addition, the loan is guaranteed by Yuebiao Li and his wife and is pledged with the Company's plant 2 located in Laishan District, Yantai City, Shandong Province with real property ownership and relevant land use right.

During the subsequent period, the Company repaid a total of \$2,773,160 for Qingdao Metrol Loan I and II, Qingdao Yikou Industrial Automation Technology Co., Ltd, ZGC Sci-Tech Leasing Co., Ltd and loans borrowed from Bank of China, Yantai Bonded Port Area Branch.

On May 29, 2020, the Company acquired 40% of equity interest in Yantai Jinyu Eco-Technology Co., Ltd. ("Yantai Jinyu"), an environmental technology development company that was newly established in May 2020. The subscription capital for the Company is RMB 20,000,000 (approximately \$2,797,951). As of the filing date, the investment has not been made.

The outbreak of the COVID-19 pandemic in China starting from the ending of 2019 has posed limitations to the Company's normal operating routine. The Company followed the restrictive measures implemented in China, by suspending onsite operation until February 2020, when the Company started to gradually resume normal operation. The Company has experienced suspension of operations, interruption of supply chain and decline in demand by the Company's customers. Consequently, the COVID-19 pandemic may adversely affect the Company's business operations, financial condition and operating results in the first quarter of 2020, including but not limited to material negative impact to the Company's total revenues, slower collection of accounts receivables and significant impairment to the Company's equity investments. Due to the high uncertainty of the evolving situation, the Company has limited visibility on the full impact brought upon by the COVID-19 pandemic and the related financial impact cannot be estimated at this time.