

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

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2023

OR

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

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from to

Commission file number 001-38304

Dogness (International) Corporation

(Exact name of Registrant as specified in its charter)

British Virgin Islands

(Jurisdiction of incorporation or organization)

Tongsha Industrial Estate, East District

Dongguan, Guangdong 523217

People's Republic of China

(Address of principal executive offices)

Aihua Cao, Chief Financial Officer

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Dongguan, Guangdong 523217

People's Republic of China

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

Title of each class

Common Shares, \$0.002 par value per share

Name of each exchange on which registered

NASDAQ Global Market

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 31,055,259 Class A Common Shares and 9,069,000 Class B 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 (§232.405 of this chapter) 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.

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.

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

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

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

U.S. GAAP

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

Other

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

Item 17 Item 18

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

Yes No

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

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

Yes No

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this annual report with respect to the Company's current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of the Company. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "intend," "seek," "may," "might," "could" or "should," and words of similar meaning in connection with a discussion of future operations, financial performance, events or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions, judgments and beliefs in light of the information currently available to it. The Company cautions investors that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, including but not limited to, our ability to continue as a going concern, product and service demand and acceptance, changes in technology, economic conditions, the impact of competition and pricing, government regulation, and other risks contained in reports filed by the company with the Securities and Exchange Commission. Therefore, investors should not place undue reliance on such forward-looking statements. Actual results may differ significantly from those set forth in the forward-looking statements.

All such forward-looking statements, whether written or oral, and whether made by or on behalf of the company, are expressly qualified by the cautionary statements and any other cautionary statements which may accompany the forward-looking statements. In addition, the company disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

Part I

We are not a Chinese operating company but a British Virgin Islands holding company with operations conducted by our subsidiaries established in Delaware, mainland China, Hong Kong Special Administrative Region of the People's Republic of China and British Virgin Islands. Therefore, investing in our securities involves unique and a high degree of risk. You should carefully read and consider the risk factors of this report (beginning on page 8), especially the risk factors under the caption "Risks Related to Our Corporate Structure and Operation" (beginning on Page 20) and "Risks Related to Doing Business in China" (beginning on Page 29).

Unless otherwise indicated or the context requires otherwise, references in this prospectus to "China" or the "PRC" are to the mainland of People's Republic of China, Taiwan, Hong Kong Special Administrative Region of the People's Republic of China ("HK SAR" or "Hong Kong"), and the special administrative regions of Macau (for the purposes of this prospectus only); "mainland China" are to the mainland of the People's Republic of China, excluding Taiwan Hong Kong, and Macau (for the purposes of this prospectus only); "Mainland China Subsidiaries" refer to our subsidiaries incorporated in mainland China, including Dogness Intelligent Technology (Dongguan) Co., Ltd., a mainland China company ("Dongguan Dogness"), Dongguan Jiasheng Enterprise Co., Ltd., a mainland China company ("Dongguan Jiasheng"), Zhangzhou Meijia Metal Product Co., Ltd, a mainland China company ("Meijia"), and Dogness Intelligence Technology Co., Ltd., a mainland China company ("Intelligence Guangzhou"); "Hong Kong Subsidiaries" refer to our subsidiaries incorporated in Hong Kong, including Jiasheng Enterprise (Hongkong) Co., Limited, a Hong Kong company ("HK Jiasheng") and Dogness (Hongkong) Pet's Products Co., Limited, a Hong Kong company ("HK Dogness"). We will also refer to all of our subsidiaries, as the "Subsidiaries".

The Securities registered under the Securities Act and the Exchange Act are of the off-shore holding company Dogness (International) Corporation (the "Company"), a British Virgin Islands company, which owns equity interests, directly or indirectly, of the operating subsidiaries. Subsidiaries conduct operations in China and the holding company does not conduct operations in China.

We are subject to legal and operational risks associated with being based in and having the majority of the company's operations in mainland China and Hong Kong. These risks include, among others, the following:

- **PRC government interference.** The Chinese government may intervene or influence the operation of our Hong Kong and mainland China operating entities and exercise significant oversight and discretion over the conduct of their business and may intervene in or influence their operations at any time with little advance notice, or may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, which could result in a material change in our operations and/or the value of our Class A Common Shares. Any actions by the Chinese government to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer Securities to investors and cause the value of such securities to significantly decline or be worthless. See Risk Factors – Risks Related to Doing Business in China – *"China's economic, political and social conditions, as well as changes in any government policies, laws and regulations may be quick with little advance notice and, could have a material adverse effect on our business and the value of our Class A Common Shares"* and *"The Chinese government exerts substantial influence over the manner in which we must conduct our business activities and may intervene or influence our operations at any time, which could result in a material change in our operations and the value of our Class A Common Shares"* and *"The Chinese government exerts oversight and control over overseas offerings and listing conducted by China-based issuers under the Listing Records Rules and/or the Confidentiality Provisions, which could significantly limit or completely hinder our ability to offer or continue to offer our Class A Common Shares to investors and could cause the value of our Class A Common Shares to significantly decline or become worthless"*.
- **Uncertain PRC legal enforcement.** The mainland China legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. We conduct our business primarily through our subsidiaries established in China. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China. However, since these laws and regulations are relatively new and the mainland China legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. See Risk Factors – Risks Related to Doing Business in China – *"Uncertainties with respect to the mainland China legal system could have a material adverse effect on us"*.
- **Shareholder enforcement risk.** Since we conduct a significant portion of our operations in mainland China, the majority of our assets are located in mainland China, and all of our directors, officers or senior management other than Yunhao Chen, are located in mainland China, it may be more difficult for shareholders to enforce liabilities and enforce judgments on those individuals. Our PRC legal counsel, Guangdong Jiamao Law Firm, has advised us that mainland China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in mainland China of judgments of a court in any of these jurisdictions outside mainland China in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. See Risk Factors – Risks Related to Doing Business in China – *"You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in mainland China against us or Hong Kong or other foreign laws, and the ability of U.S. authorities to bring actions in mainland China may also be limited"*.

- **Repatriation of offering proceeds to PRC.** In utilizing the proceeds of this offering in the manner described in “Use of Proceeds,” as an offshore holding company of our PRC operating subsidiary, we may decide to make loans or additional contributions to our PRC subsidiary or the VIE. Certain governmental registrations, submissions or approvals need to be completed or obtained in this regard. Failure to complete such registrations, submissions or obtain such approvals, our ability to use the proceeds from our initial public offering and to capitalize or otherwise fund our PRC operations may be negatively affected. See Risk Factors – Risks Related to Doing Business in China – “We must remit the offering proceeds to China before they may be used to benefit our business in China, the process of which may be time-consuming, and we cannot assure that we can finish all necessary governmental registration processes in a timely manner” and “PRC regulation of loans and direct investment by offshore holding companies to mainland China entities may delay or prevent us from using the proceeds of this Offering to make loans or additional capital contributions to our Mainland China Subsidiary, which could materially and adversely affect our liquidity and our ability to fund and expand our business”.
- **Restriction on currency conversion.** The PRC government imposes control on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of mainland China. We receive a majority of our revenues in Renminbi, which currently is not a freely convertible currency. Restrictions on currency conversion imposed by the PRC government may limit our ability to use revenues generated in Renminbi to fund our expenditures denominated in foreign currencies or our business activities outside mainland China. See Risk Factors – Risks Related to Doing Business in China – “Governmental control of currency conversion may limit our ability to use our revenues effectively and the ability of our Mainland China Subsidiaries to obtain financing”.
- **Restrictions on dividend payment.** As a holding company, we rely principally on dividends and other distributions on equity from our subsidiaries, including those based in China, for our cash requirements, including for services of any debt we may incur. Our Mainland China Subsidiaries’ ability to distribute dividends is based upon their distributable earnings. Current PRC regulations permit our Mainland China Subsidiaries to pay dividends to their respective shareholders only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, if our Mainland China Subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any limitation on the ability of our Mainland China Subsidiaries to distribute dividends or other payments to their respective shareholders could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends or otherwise fund and conduct our business. See Risk Factors – Risks Related to Doing Business in China – “We may rely on dividends and other distributions on equity paid by our subsidiaries, including those based in the PRC, for our cash and financing requirements we may have, and any limitation on the ability of our Mainland China Subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business”.
- **Possibility to be classified as “Resident Enterprise.”** Under the Enterprise Income Tax Law, Dogness may be classified as a “Resident Enterprise” of China. Such classification will likely result in unfavorable tax consequences to us and our shareholders outside of mainland China, including repayment of any underpayments and penalties for underpayment. See Risk Factors – Risks Related to Doing Business in China – “We may be classified as a “resident enterprise” for mainland China enterprise income tax purposes; such classification could result in unfavorable tax consequences to us and our non-mainland China shareholders”.

Recently, the PRC government initiated a series of regulatory actions and statements to regulate business operations in China with little advance notice, including cracking down on illegal activities in the securities market, adopting new measures to impose filing requirements on China-based companies for their initial public offerings or listings in overseas stock markets and extend the scope of cybersecurity reviews, and expanding the efforts in anti-monopoly enforcement.

On July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly released the Opinions on Severely Cracking Down on Illegal Securities Activities According to Law, or the Opinions. The Opinions emphasized the need to strengthen the administration over illegal securities activities, and the need to strengthen the supervision over overseas listings by Chinese companies. Effective measures, such as promoting the construction of relevant regulatory systems will be taken to deal with the risks and incidents of China-concept overseas listed companies, and cybersecurity and data privacy protection requirements, etc. The Opinions and any related implementing rules to be enacted may subject us to compliance requirement in the future.

On February 17, 2023, with the approval of the State Council, China Securities Regulatory Commission (the “CSRC”) issued the relevant system and rules for the management of overseas listing records, which will be implemented from March 31, 2023. A total of six institutional rules (the “Listing Records Rules”) have been issued this time, including the Trial Measures for the Administration of Overseas Issuance and Listing of Securities by Domestic Enterprises (hereinafter referred to as the “Trial Measures”) and five supporting guidelines. Under the Listing Records Rules, a company established in mainland China seeking securities offering and listing, by both direct or indirect means, in an overseas market is required to undertake filing procedures with the CSRC for its overseas offering and listing activities. The Trial Measures also set forth a list of circumstance under which overseas offering and listing by domestic companies established in mainland China is prohibit, including: (i) where such securities offering and listing is explicitly prohibited by the PRC laws; (ii) where the intended securities offering and listing may endanger national security as reviewed and determined by competent PRC authorities under the State Council in accordance with PRC laws; (iii) where the domestic company established in mainland China, or its controlling shareholders and the actual controller, have committed crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three (3) years; (iv) where the domestic company established in mainland China seeking securities offering and listing is suspected of committing crimes or major violations of laws and regulations, and is under investigation according to law, and no conclusion has yet been made thereof; and (v) where there are material ownership disputes over equity held by the controlling shareholder of the company established in mainland China or by other shareholders that are controlled by the controlling shareholder and/or actual controller. In accordance with the Trial Measures, the listing and trading of our Class A Common Shares on Nasdaq is deemed as an indirect overseas offering and listing by domestic companies established in mainland China, and thus, we are subject to the Listing Records Rules and the relevant filing procedures as required. Further, we believe, as of the date of this annual report, none of the circumstances prohibiting the overseas offering and listing by domestic companies established in mainland China as listed above applies to us, and we can offer and continue to offer our Class A Common Shares on Nasdaq.

In accordance with the Notice on the Arrangement for the Filing of Overseas Offering and Listing by Domestic Companies issued by the CSRC along with the Listing Records Rules on the same day, we are deemed as an “Existing Issuer” because we have been listed overseas before March 31, 2023. Under such Notice, we are not required to undertake the initial filing procedure immediately. However, we shall carry out filing procedures as required in a timely manner for the subsequent events, including any further follow-up offerings on Nasdaq, dual and/or secondary offering and listing on different overseas markets, and occurrence of material events including change of control, investigations or sanctions imposed by overseas securities regulatory agencies or other relevant competent authorities, change of listing status or transfer of listing segment, and voluntary or mandatory delisting. If we or our Mainland China Subsidiaries in future fail to undertake filing procedures as stipulated in the Trial Measures, or offer and list securities in an overseas market in violation of the Trial Measures, the CSRC may order rectification, issue warnings to us and/or our Mainland China Subsidiaries, and impose a fine of between RMB 1,000,000 yuan and RMB 10,000,000 yuan. The CSRC may also inform its regulatory counterparts in the overseas jurisdictions, such as the SEC, via cross-border securities regulatory cooperation mechanisms.

Further, on February 24, 2023, the CSRC, together with Ministry of Finance, National Administration of State Secrets Protection, and National Archives Administration of China, released the Provisions on Strengthening the Confidentiality and Archives Administration Related to the Overseas Securities Offering and Listing by Domestic Enterprises (the “Confidentiality Provisions”), which will come into effect on March 31, 2023 with the Trial Measures. Under the Confidentiality Provisions, domestic companies established in mainland China seeking overseas offering and listing, by both direct and indirect means, are required to institute a sound confidentiality and archives system. If such domestic companies established in mainland China intend to, either directly or through its overseas listed entity, publicly disclose or provide to relevant individuals or entities including securities companies, securities service providers and overseas regulators, any documents and materials that contain state secrets or working secrets of government agencies, they shall obtain approval from competent authorities and complete the relevant filing procedure with the competent secrecy administrative department prior to their disclosure or provision of such documents and materials. Further, if they provide or publicly disclose documents and materials which may adversely affect national security or public interests, they shall strictly follow the corresponding procedures in accordance with relevant laws and regulations. Once effective, any failure or perceived failure by us or our subsidiaries to comply with the above confidentiality and archives administration requirements under the Confidentiality Provisions and other relevant PRC laws and regulations may cause relevant entities to be held legally liable by competent authorities, and referred to the judicial organ to be investigated for criminal liability if suspected of committing a crime. As of the date of this annual report, we believe that we and our subsidiaries have not provided or publicly disclosed any documents or materials involving state secrets or work secrets of PRC government agencies or any of which may adversely affect national security or public interests, to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals. We intend to strictly comply with the Confidentiality Provisions and other relevant PRC laws and regulations in our offering and listing on Nasdaq in future.

However, any failure of us or our Mainland China Subsidiaries to fully comply with the Listing Records Rules and/or the Confidentiality Provisions, once effective, may significantly limit or completely hinder our ability to offer or continue to offer our Class A Common Shares on Nasdaq, cause significant disruption to our business operations, severely damage our reputation, materially and adversely affect our financial condition and results of operations and cause our Class A Common Shares to significantly decline in value or become worthless. See “Risk Factor — Risks Related to Doing Business in China — *The Chinese government exerts oversight and control over overseas offerings and listing conducted by China-based issuers under the Listing Records Rules and the Confidentiality Provisions, which could significantly limit or completely hinder our ability to offer or continue to offer our Class A Common Shares to investors and could cause the value of our Class A Common Shares to significantly decline or become worthless.*”

We or our Subsidiaries may also be subject to PRC laws relating to the use, sharing, retention, security and transfer of confidential and private information, such as personal information and other data. On November 14, 2021, the Cyberspace Administration of China (“CAC”) released the Regulations on the Network Data Security Management (Draft for Comments), or the Data Security Management Regulations Draft, to solicit public opinion and comments till December 13, 2021, which has not been promulgated as of the date of this annual report. Pursuant to the Data Security Management Regulations Draft, data processors holding more than one million users/users’ individual information shall be subject to cybersecurity review before listing abroad. Data processing activities refers to activities such as the collection, retention, use, processing, transmission, provision, disclosure, or deletion of data. According to the latest amended Cybersecurity Review Measures, which was promulgated on November 16, 2021 and became effective on February 15, 2022, an online platform operator holding more than one million users/users’ individual information shall be subject to cybersecurity review before listing abroad. As of the date of this annual report, we have not been informed by any PRC governmental authority of any requirement that we or our Subsidiaries file for approval for this offering. We don’t believe that we or any of our Subsidiaries will be subject to either the amended Cybersecurity Review Measures or the Data Security Management Regulations Draft since none of us hold more than one million users/users’ individual information. However, it is uncertain how the above mentioned new laws or regulations will be enacted, interpreted or implemented, and whether it will affect us. Since the regulatory actions are new, it is highly uncertain how soon legislative or administrative regulation making bodies will respond and what existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated, if any, and the potential impact such modified or new laws and regulations will have on our Subsidiaries’ daily business operation, their ability to accept foreign investments, and our ability to continue to list or offer securities on an U.S. exchange. See “Risk Factor — Risks Related to Doing Business in China — *The Chinese government exerts substantial influence over the manner in which we must conduct our business activities and may intervene or influence our operations at any time, which could result in a material change in our operations and the value of our Class A Common Shares.*”

On February 7, 2021, the Anti-Monopoly Committee of the State Council promulgated the Anti-monopoly Guidelines for the Platform Economy Sector, or the Anti-monopoly Guideline, aiming to improve anti-monopoly administration on online platforms. The Anti-monopoly Guideline, operating as the compliance guidance under the then-existing PRC anti-monopoly regulatory regime for platform economy operators, specifically prohibits certain acts of the platform economy operators that may have the effect of eliminating or limiting market competition, such as concentration of undertakings. The PRC anti-monopoly regulatory regime started with the Anti-Monopoly Law promulgated by the Standing Committee of the National People’s Congress of China (“SCNPC”) on August 30, 2007 and effective on August 1, 2008, which requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by the Ministry of Commerce of China (“MOFCOM”) before they can be completed. In addition, on February 3, 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or Circular 6, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Further, on August 25, 2011, MOFCOM promulgated the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors, or the MOFCOM Security Review Regulations, which became effective on September 1, 2011, to implement Circular 6. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. Under the MOFCOM Security Review Regulations, MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If MOFCOM decides that a specific merger or acquisition is subject to security review, it will submit it to the Inter-Ministerial Panel, an authority established under the Circular 6 led by the NDRC, and MOFCOM under the leadership of the State Council, to carry out the security review. The regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

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

Dividend Distributions and Cash Transfer among Dogness and the Subsidiaries

As a holding company, we may rely on dividends and other distributions on equity paid by our subsidiaries, including those based in mainland China, for our cash and financing requirements. If any of our Mainland China Subsidiaries incurs debt on its own behalf in the future, the instruments governing such debt may restrict their ability to pay dividends to us. To date, none of the Subsidiaries has made any dividends or distributions to Dogness, and Dogness has not made any dividends or distributions to our shareholders. We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay Company cash dividends in the foreseeable future. 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 our Hong Kong subsidiaries, HK Jiasheng and HK Dogness. Current PRC regulations permit the Mainland China Subsidiaries to pay dividends to HK Dogness only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries in mainland China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Each of such entity in mainland China is also required to further set aside a portion of its after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at the discretion of its board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation.

The PRC government also imposes controls on the conversion of RMB into foreign currencies and, in certain cases, the remittance of currencies out of mainland China. We receive a majority of our revenues in Renminbi, which currently is not a freely convertible currency. Restrictions on currency conversion imposed by the PRC government may limit our ability to use revenues generated in Renminbi to fund our expenditures denominated in foreign currencies or our business activities outside China. Under China's existing foreign exchange regulations, Renminbi may be freely converted into foreign currency for payments relating to current account transactions, which include among other things dividend payments and payments for the import of goods and services, by complying with certain procedural requirements. Our Mainland China Subsidiaries are able to pay dividends in foreign currencies to us without prior approval from the related government agencies, by complying with certain procedural requirements. Our Mainland China Subsidiaries may also retain foreign currency in their respective current account bank accounts for use in payment of international current account transactions. However, we cannot assure you that the PRC government will not at its discretion take measures in the future to restrict access to foreign currencies for current account transactions.

Conversion of Renminbi into foreign currencies, and of foreign currencies into Renminbi, for payments relating to capital account transactions, which principally includes investments and loans, generally requires the approval of China's State Administration of Foreign Exchange ("SAFE") or other relevant PRC governmental authorities. Any foreign loans procured by our Mainland China Subsidiaries is required to be registered with SAFE or its local branches or satisfy relevant requirements. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our Mainland China Subsidiaries are subject to the approval of or filing with State Administration for Market Regulation in its local branches, the Ministry of Commerce in its local branches and registration with a local bank authorized by SAFE. For these capital account transactions, we must take the steps legally required under the PRC laws, for example, we will open a special foreign exchange account, remit the offering proceeds into such special foreign exchange account, and apply for settlement of the foreign exchange. The timing of the process is difficult to estimate because the efficiencies of different SAFE branches can vary materially. In light of the various requirements imposed by PRC regulations on loans to, and direct investment in, mainland China entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our Mainland China Subsidiaries or with respect to future capital contributions by us to our Mainland China Subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds from this offering and to capitalize or otherwise fund our mainland China operations may be negatively affected, which could materially and adversely affect our liquidity, our ability to fund and expand our business and our Common Shares. On the other hand, restrictions on the convertibility of the Renminbi for capital account transactions could affect the ability of our Mainland China Subsidiaries to make investments overseas or to obtain foreign currency through debt or equity financing, including by means of loans or capital contributions from us. We cannot assure you that the registration process will not delay or prevent the conversion of Renminbi for use outside of China. Currently, we have installed cash management policies or procedures in place that dictate how funds are transferred, under an umbrella of corporate policies and financial reporting policies. Even though our policies do not specifically address the limitations, as discussed above, on the amount of funds the Company can transfer out of China, if we decide to transfer cash out of China in the future, all relevant transfers will be conducted in compliance with such limitations. Please see "Risk Factor — Risks Related to Doing Business in China — *China's economic, political and social conditions, as well as changes in any government policies, laws and regulations, could have a material adverse effect on our business*"; "Risk Factor — Risks Related to Doing Business in China — *We may rely on dividends and other distributions on equity paid by our subsidiaries, including those based in mainland China, for our cash and financing requirements we may have, and any limitation on the ability of our Mainland China Subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business*"; "Risk Factor — Risks Related to Doing Business in China — *PRC regulation of loans and direct investment by offshore holding companies to mainland China entities may delay or prevent us from using the proceeds of this Offering to make loans or additional capital contributions to our Mainland China Subsidiary, which could materially and adversely affect our liquidity and our ability to fund and expand our business*"; "Risk Factor — Risks Related to Doing Business in China — *Governmental control of currency conversion may limit our ability to use our revenues effectively and the ability of our Mainland China Subsidiaries to obtain financing*"; and "Risk Factor — Risks Related to Doing Business in China — *We must remit the offering proceeds to China before they may be used to benefit our business in China, the process of which may be time-consuming, and we cannot assure that we can finish all necessary governmental registration processes in a timely manner.*"

In addition, the transfer of funds among our Mainland China Subsidiaries are subject to the Provisions of the Supreme People’s Court on Several Issues Concerning the Application of Law in the Trial of Private Lending Cases (2020 Revision, the “Provisions on Private Lending Cases”), which was implemented on August 20, 2020 to regulate the financing activities between natural persons, legal persons and unincorporated organizations. The Provisions on Private Lending Cases does not prohibit using cash generated from one subsidiary to fund the operations of another subsidiary in China. As of the date of this annual report, no cash generated from one subsidiary has been used to fund another subsidiary’s operations, except for the financing obtained by the Company be transferred to operating entities for their operations. We have not been notified of any other restriction which could limit our Mainland China Subsidiaries’ ability to transfer cash between subsidiaries in China, and do not anticipate any difficulties or limitations in our ability to transfer cash between subsidiaries. As of the date of this annual report, no cash generated from one subsidiary has been used to fund another subsidiary’s operations; for that reason, our cash management policies do not specifically address this type of transfers between subsidiaries. We do not anticipate any occasions where cash generated from one subsidiary needs to be transferred to another subsidiary and will comply with PRC laws discussed above should we decide to conduct such a transfer.

Cash flow between Dogness and the Subsidiaries primarily consists of transfers from Dogness to these Subsidiaries for short-term working capital loan, which is mainly used in payment of operating expenses and investments. To date, there are no other assets transferred between Dogness and the Subsidiaries except for the below cash transfers:

- For the year ended June 30, 2021, Dogness transferred \$505,850 to the Delaware subsidiary, Dogness Group LLC, for short term working capital loan purpose and transferred \$2,581,533 to HK Dogness for short term working capital loan purpose. The source of funds was the registered direct public offering we completed on January 20,2021 with net proceeds of \$6.6 million. For the year ended June 30, 2021, Dogness also received cash repayment transferred from HK Dogness in the amount of \$304.
- For the year ended June 30, 2022, Dogness transferred \$186,500 to the Delaware subsidiary, Dogness Group LLC, for working capital loan purpose and transferred \$15,577,896 to HK Dogness for working capital loan purpose. The source of the funds was mainly from the equity financing and the exercise of warrants in fiscal 2022. For the year ended June 30, 2022, Dogness also received cash payment transferred from HK Dogness in the amount of \$1,999,787.
- For the year ended June 30, 2023, Dogness transferred \$13.3 million to HK Dogness for working capital loan purpose. The source of the funds was mainly from the equity financing and the exercise of warrants in fiscal 2022.

In the future, cash proceeds raised from overseas financing activities may be transferred by Dogness to the Subsidiaries via capital contribution or shareholder loans, as the case may be.

A. Selected Financial Data

In the table below, we provide you with historical selected financial data for the fiscal years ended June 30, 2023, 2022, and 2021. This information is derived from our consolidated financial statements included elsewhere 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 financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report. Our audited consolidated financial statements are prepared and presented in accordance with Generally Accepted Accounting Principles in the United States of America, or U.S. GAAP.

| | For Fiscal Year Ended June 30, 2023 | For Fiscal Year Ended June 30, 2022 | For Fiscal Year Ended June 30, 2021 |
|--|--|--|--|
| | US\$ (audited) | US\$ (audited) | US\$ (audited) |
| Statement of operation data: | | | |
| Revenues | \$ 17,584,454 | \$ 27,095,197 | \$ 24,320,121 |
| Gross profit | 3,661,288 | 10,139,065 | 9,155,213 |
| Operating expenses | 13,225,261 | 10,065,009 | 7,297,420 |
| Income (loss) from operations | (9,563,973) | 74,056 | 1,857,793 |
| Other income | 877,050 | 164,208 | 82,695 |
| Income taxes (benefit) expense | (1,227,449) | (2,777,868) | 641,460 |
| Net income (loss) | \$ (7,459,474) | \$ 3,016,132 | \$ 1,299,028 |
| Earnings (loss) per share, basic and diluted | \$ (0.18) | \$ 0.10 | \$ 0.05 |
| Weighted average Ordinary Shares outstanding (basic) | 39,668,780 | 33,711,659 | 27,499,367 |

Balance sheet data:

| | As of June 30, | | | | |
|---------------------|-----------------------|---------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Current assets | \$ 14,003,843 | \$ 23,354,676 | \$ 14,266,131 | \$ 11,627,458 | \$ 25,922,624 |
| Total assets | 97,871,328 | 100,796,722 | 93,845,408 | 63,551,261 | 69,023,927 |
| Current liabilities | 9,317,966 | 6,485,021 | 21,262,335 | 10,769,734 | 8,072,423 |
| Total liabilities | 21,526,023 | 12,320,746 | 28,943,003 | 12,043,333 | 8,072,423 |
| Total equity | \$ 76,345,305 | \$ 88,475,976 | \$ 64,902,405 | \$ 51,507,928 | \$ 60,951,504 |

Exchange Rate Information

Our financial information is presented in U.S. dollars. The financial position and results of the operations of HK Dogness, HK Jiasheng, Dongguan Dogness, Dongguan Jiasheng, Meijia and Intelligence Guangzhou are determined using the Chinese Renminbi (“RMB”), the local currency, as the functional currency. Dogness Japan uses Japanese Yen as the functional currency (the shares held in Dogness Japan were sold on November 28, 2020 during the fiscal year ended June 30, 2021), while Dogness Overseas and Dogness Group use U.S. Dollar as their functional currency.

The results of operations and the consolidated statements of cash flows denominated in foreign currencies are translated at the average rate of exchange during the reporting period. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange in effect at that date. The equity denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. Because cash flows are translated based on the average translation rate, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets. Translation adjustments arising from the use of different exchange rates from period to period are included as a separate component of accumulated other comprehensive income included in consolidated statements of changes in equity. Gains and losses from foreign currency transactions are included in the consolidated statement of income and comprehensive income.

The relevant exchange rates are listed below:

| | June 30, 2023 | June 30, 2022 | June 30, 2021 | |
|--------------------|-----------------|-----------------|------------------|-----------------|
| Year-end spot rate | US\$1=RMB7.2513 | US\$1=RMB6.6981 | US\$1=RMB 6.4566 | US\$1=JPY 111.1 |
| Average rate | US\$1=RMB6.9536 | US\$1=RMB6.4554 | US\$1=RMB 6.6221 | US\$1=JPY 106.6 |

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 PRC 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. We do not currently engage in currency hedging transactions.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

| Period | Midpoint of Buy and Sell Prices for U.S. Dollar per RMB | | | |
|---------------------------------|---|---------|--------|--------|
| | Period-End | Average | High | Low |
| 2015 | 6.4917 | 6.2288 | 6.4917 | 6.0933 |
| 2016 | 6.9448 | 6.6441 | 7.0672 | 6.4494 |
| 2017 | 6.5074 | 6.7578 | 6.9535 | 6.4686 |
| 2018 | 6.8776 | 6.6163 | 7.1786 | 6.6822 |
| 2019 | 6.9618 | 6.9081 | 7.1786 | 6.6822 |
| 2020 | 6.5250 | 6.9042 | 7.1681 | 6.5208 |
| 2021 | 6.3839 | 6.4668 | 6.5716 | 6.3674 |
| 2022 | 6.8983 | 6.7328 | 7.3055 | 6.3094 |
| 2023 (through October 10, 2023) | 7.2954 | 7.0406 | 7.3430 | 6.7030 |

As of October 10, 2023, the exchange rate is RMB 7.2954 to \$1.00.

B. Capitalization and Indebtedness

Not applicable for annual reports on Form 20-F.

C. Reasons for the Offer and Use of Proceeds

Not applicable for annual reports on Form 20-F.

D. Risk Factors

Before you decide to purchase our Class A Common Shares, you should understand the high degree of risk involved. You should consider carefully the following risks and other information in this report, including our consolidated financial statements and related notes. If any of the following risks actually occur, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our Class A Common Shares could decline, perhaps significantly.

Please also read carefully the section below entitled "Cautionary Note Regarding Forward-Looking Statements."

Summary of Major Risk Factors

- **PRC government interference.** The Chinese government may intervene or influence the operation of our Hong Kong and mainland China operating entities and exercise significant oversight and discretion over the conduct of their business and may intervene in or influence their operations at any time with little advance notice, or may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, which could result in a material change in our operations and/or the value of our Class A Common Shares. Any actions by the Chinese government to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer Securities to investors and cause the value of such securities to significantly decline or be worthless. See Risk Factors – Risks Related to Doing Business in China – “China’s economic, political and social conditions, as well as changes in any government policies, laws and regulations may be quick with little advance notice and, could have a material adverse effect on our business and the value of our Class A Common Shares” and “The Chinese government exerts substantial influence over the manner in which we must conduct our business activities and may intervene or influence our operations at any time, which could result in a material change in our operations and the value of our Class A Common Shares” and “The Chinese government exerts oversight and control over overseas offerings and listing conducted by China-based issuers under the Listing Records Rules and/or the Confidentiality Provisions, which could significantly limit or completely hinder our ability to offer or continue to offer our Class A Common Shares to investors and could cause the value of our Class A Common Shares to significantly decline or become worthless”.
- **Uncertain PRC legal enforcement.** The mainland China legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. We conduct our business primarily through our subsidiaries established in China. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China. However, since these laws and regulations are relatively new and the mainland China legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. See Risk Factors – Risks Related to Doing Business in China – “Uncertainties with respect to the mainland China legal system could have a material adverse effect on us”.
- **Shareholder enforcement risk.** Since we conduct a significant portion of our operations in mainland China, the majority of our assets are located in mainland China, and all of our directors, officers or senior management other than Yunhao Chen, are located in mainland China, it may be more difficult for shareholders to enforce liabilities and enforce judgments on those individuals. Our PRC legal counsel, Guangdong Jiamao Law Firm, has advised us that mainland China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in mainland China of judgments of a court in any of these jurisdictions outside mainland China in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. See Risk Factors – Risks Related to Doing Business in China – “You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in mainland China against us or Hong Kong or other foreign laws, and the ability of U.S. authorities to bring actions in mainland China may also be limited”.
- **Repatriation of offering proceeds to PRC.** In utilizing the proceeds of this offering in the manner described in “Use of Proceeds,” as an offshore holding company of our PRC operating subsidiary, we may decide to make loans or additional contributions to our PRC subsidiary or the VIE. Certain governmental registrations, submissions or approvals need to be completed or obtained in this regard. Failure to complete such registrations, submissions or obtain such approvals, our ability to use the proceeds from our initial public offering and to capitalize or otherwise fund our PRC operations may be negatively affected. See Risk Factors – Risks Related to Doing Business in China – “We must remit the offering proceeds to China before they may be used to benefit our business in China, the process of which may be time-consuming, and we cannot assure that we can finish all necessary governmental registration processes in a timely manner” and “PRC regulation of loans and direct investment by offshore holding companies to mainland China entities may delay or prevent us from using the proceeds of this Offering to make loans or additional capital contributions to our Mainland China Subsidiary, which could materially and adversely affect our liquidity and our ability to fund and expand our business”.

- **Restriction on currency conversion.** The PRC government imposes control on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of mainland China. We receive a majority of our revenues in Renminbi, which currently is not a freely convertible currency. Restrictions on currency conversion imposed by the PRC government may limit our ability to use revenues generated in Renminbi to fund our expenditures denominated in foreign currencies or our business activities outside mainland China. See Risk Factors – Risks Related to Doing Business in China – “Governmental control of currency conversion may limit our ability to use our revenues effectively and the ability of our Mainland China Subsidiaries to obtain financing”.
- **Restrictions on dividend payment.** As a holding company, we rely principally on dividends and other distributions on equity from our subsidiaries, including those based in China, for our cash requirements, including for services of any debt we may incur. Our Mainland China Subsidiaries’ ability to distribute dividends is based upon their distributable earnings. Current PRC regulations permit our Mainland China Subsidiaries to pay dividends to their respective shareholders only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, if our Mainland China Subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any limitation on the ability of our Mainland China Subsidiaries to distribute dividends or other payments to their respective shareholders could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends or otherwise fund and conduct our business. See Risk Factors – Risks Related to Doing Business in China – “We may rely on dividends and other distributions on equity paid by our subsidiaries, including those based in the PRC, for our cash and financing requirements we may have, and any limitation on the ability of our Mainland China Subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business”.
- **Possibility to be classified as “Resident Enterprise.”** Under the Enterprise Income Tax Law, Dogness may be classified as a “Resident Enterprise” of China. Such classification will likely result in unfavorable tax consequences to us and our shareholders outside of mainland China, including repayment of any underpayments and penalties for underpayment. See Risk Factors – Risks Related to Doing Business in China – “We may be classified as a “resident enterprise” for mainland China enterprise income tax purposes; such classification could result in unfavorable tax consequences to us and our non-mainland China shareholders”.

Risks Related to Our Business

We face risks related to health epidemics that could impact our sales and operating results.

Our business could be adversely affected by the effects of a widespread outbreak of contagious disease, including the recent outbreak of respiratory illness caused by a novel coronavirus first identified in Wuhan, Hubei Province, China. Any outbreak of contagious diseases, and other adverse public health developments, particularly in China, could have a material and adverse effect on the business operations of us and our Subsidiaries. These could include disruptions or restrictions on our ability to resume the general shipping agency services, as well as temporary closures of our facilities and ports or the facilities of our customers and third-party service providers. Any disruption or delay of our customers or third-party service providers would likely impact our operating results and the ability of the Company to continue as a going concern. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of China and many other countries, resulting in an economic downturn that could affect demand for our services and significantly impact our operating results.

The coronavirus disease 2019 (COVID-19) has had a significant impact on our operations since January 2020 and could materially adversely affect our business and financial results for the remaining months of the 2023 calendar year.

Our ability to manufacture and/or sell our products may be impaired by damage or disruption to our manufacturing, warehousing or distribution capabilities, or to the capabilities of our suppliers, logistics service providers or distributors as a result of the impact from the COVID-19. This damage or disruption could result from events or factors that are impossible to predict or are beyond our control, such as raw material scarcity, pandemics, government shutdowns, disruptions in logistics, supplier capacity constraints, adverse weather conditions, natural disasters, fire, terrorism or other events.

The COVID-19 pandemic, which has spread rapidly across the globe, resulted in adverse economic conditions and business disruptions. In reaction to this outbreak, governments worldwide have imposed varying degrees of preventative and protective actions, such as temporary travel bans, forced business closures, and stay-at-home orders, all in an effort to reduce the spread of the virus. Since this outbreak, business activities in China and many other countries including U.S. have been disrupted by a series of emergency quarantine measures taken by the government. The Chinese government has employed measures including city lockdowns, quarantines, travel restrictions, suspension of business activities and school closures. Due to difficulties resulting from the COVID-19 outbreak, including, but not limited to, the temporary closure of the factory and operations beginning in early February until late March 2020, limited support from the employees, delayed access to raw material supplies and inability to deliver products to customers on a timely basis, our business was negatively impacted. While the spread of the disease has gradually returned under control in China, COVID-19 could still adversely affect the business operation our Mainland China Subsidiaries and Hong Kong Subsidiaries and our financial results in the future. As a result, there is a possibility that the Company's revenues and operating cash flows may be significantly lower than expected for fiscal year 2023.

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

In the normal course of business, we and our Subsidiaries may be subject to challenges from various PRC taxing authorities regarding the amounts of taxes due. PRC taxing authorities may take the position that we or our Subsidiaries owe more taxes than it has paid. We recorded tax liabilities of \$1.0 million, \$1.6 million, and \$4.4 million as of June 30, 2023, 2022, and 2021, respectively, for the possible underpayment of income and business taxes. It is possible that the tax liability of for past taxes may be higher than those amounts, if the PRC authorities determine that penalties are applicable or that the correct amount has not been paid. Although the Company's management believes it may be able to negotiate with local PRC taxing authorities a reduction to any amounts that such authorities may believe are due and a reduction to any interest or penalties thereon, we have no guarantee that we will be able to negotiate such a reduction. To the extent we are able to negotiate such amounts, national-level taxing authorities may take the position that localities are without power to reduce such liabilities, and such PRC taxing authorities may attempt to collect unpaid taxes, interest and penalties in amounts greatly exceeding management's estimates.

If our largest customers reduce their orders with us, such revenues would be very difficult to replace.

Although we have also sold our products through distributors and trading companies, some of our largest customers are Petco and Pet Value, which are by far the largest pet specialty chains in North America. Petco has around 1600 stores in the US and Pet Valu has around 600 stores in Canada. There is not another brick-and-mortar customer that presents the opportunity that these customers present to us. As a result, if we were to lose these accounts or if these customers purchased less of our products in the future, it would be difficult to replace those lost revenues.

Our smart products have only recently entered distribution.

While we are optimistic that our smart products such as collars, harnesses, feeders and robots will be important products for our company in the future, we only recently begun to sell them and thus do not know whether they will prove popular with consumers. We have exhibited these products at expos in multiple countries and have begun to receive orders, but our revenues for all smart products was approximately \$7.4 million, 13.5 million, and \$7.8 million, during the years ended June 30, 2023, 2022, and 2021, respectively. As a result, we do not have an accurate gauge of how well accepted they will be by consumers. If consumers do not appreciate our smart products, we may not sell enough products to grow our market share in this new industry.

Our smart products are not as well-known as those of our competitors.

There are a variety of competitors providing smart collars, smart feeders and smart treaters for dogs and cats that are more well-known than our products. We are aware of more than a dozen competitors to our smart products, some of which have been on the market for several years. Because smart collars are still a relatively new industry, we do not believe that there is a single leader. Nevertheless, we face competition from more well-known products like the Whistle GPS Pet Tracker and Tractive, as well as products from more well-established, better capitalized companies in the United States such as Garmin, which produces varieties of dog training and tracking devices. Similarly, companies such as PetSafe, Petzi, Petcube, Arf Pets, and Furbo market food and treat dispensers with functionalities that in some cases are similar to our products. If we are unable to achieve recognition for our technology or if consumers opt to use products from companies they recognize more than our company, our smart collar and harness products may not be well accepted.

Our smart collars and harnesses are currently between generations.

We debuted our C2 and H2 smart collars and harnesses in 2016. These products were designed to operate over 2G telephone technology. While this platform was sufficient to meet the needs of the products, 2G speeds lag far behind currently available 4G and now 5G technology. As a result, our C2 and H2 products have thus far obtained a very limited customer base. For this reason, we have been researching and developing our next generation of smart collars and harnesses to operate with today's higher internet speeds in mind. We are close to the roll out of the C6 which relies on 4G network and C5 and C5 mini which rely on NB network. Before we are able to bring these products to market fully, we anticipate that our sales of smart collars and harnesses, along with subscriptions for ongoing cellular services for those products, will be nominal. If and when we are able to introduce our next generation of smart collars and harnesses, we are unable to predict the extent to which consumers will be drawn to such new products.

Our smart collars rely on third-party cellular telephone companies and application developers for functionality.

One of the features of our smart collars is the ability to communicate between the owner's cell phone and the collar, even when the two are too far away to communicate directly. We achieve this by having a SIM card in the smart collar so that, so long as the collar has a cell phone signal, it will communicate with the telephone. We cooperate with cell phone companies in our target markets to provide cellular service to these SIM cards. If this cooperation were to end or if the cellular service we receive is not reliable or more expensive than we anticipate, the market for our products could be harmed.

In addition, the Dogness smartphone App on which our smart collars rely are still under development and test by a company, Dogness Network Technology Co., Ltd ("Dogness Network"), in which we have a minority interest. Our company owns 10% of Dogness Network. Dogness Network plans to derive its revenues from subscriptions for services provided through the Dogness smartphone App in the near future, and we will purchase such products from Dogness Network and resell to our customers. We may benefit only by virtue of our 10% interest in Dogness Network. If Dogness Network were to stop supporting the application or impair its functionality, our smart collars and harnesses could become unusable or have decreased value to end users.

To the extent we were unable to cooperate with such third parties in the future, we would need to locate and cooperate with other service providers, and we cannot guarantee that we would be able to do so under terms that are satisfactory to us, if at all.

Our software platform may not interface with applications consumers want to be integrated.

In the connected home, consumers are increasingly aware of the interconnection among applications and devices, such as speakers that can turn on lights or adjust the temperature. Some customers purchase products based on how they will interact with other services and products that the customers already use. If we are unable to anticipate and accommodate these desires, customers may choose other products that do interact with their preferred services. Although we may incorporate such functionality in future generations of our products, not all of our current products integrate into Apple's, Google's or Amazon's smart home platforms. Our Dogness CAM feeder, App feeder, and App mini feeder work with Amazon Alexa.

We are also dependent on third party application stores that may prevent us from timely updating our current products or uploading new products. In addition, our products interoperate with servers, mobile devices and software applications predominantly through the use of protocols, many of which are created and maintained by third parties. We therefore depend on the interoperability of our products with such third-party services, mobile devices and mobile operating systems, as well as cloud-enabled hardware, software, networking, browsers, database technologies and protocols that we do not control. Any changes in such technologies that degrade the functionality of our products or give preferential treatment to competitive services could adversely affect adoption and usage of our platform. Also, we may not be successful in developing or maintaining relationships with key participants in the mobile industry or in developing products that operate effectively with a range of operating systems, networks, devices, browsers, protocols and standards. In addition, we may face different fraud, security and regulatory risks from transactions sent from mobile devices than we do from personal computers. If we are unable to effectively anticipate and manage these risks, or if it is difficult for our customers to access and use our platform, our business, results of operations and financial condition may be harmed.

Price increases in raw materials and sourced products could harm the Company's financial results.

Our primary raw materials are plastic, leather, nylon, polyester, chemical fiber blended fabric, metal, GPPS and HIPS, most of which are extracted from crude oil. These raw materials are subject to price volatility and inflationary pressures. Our success is dependent, in part, on our continued ability to reduce our exposure to increases in those costs through a variety of programs, including sales price adjustments based on adjustments in such raw material costs, while maintaining and improving margins and market share. We also rely on third-party manufacturers as a source for a minor portion of components for our products. These manufacturers are also subject to price volatility and labor cost and other inflationary pressures, which may, in turn, result in an increase in the amount we pay for sourced products. Raw material and sourced product price increases may more than offset our productivity gains and price increases and may adversely impact our financial results.

Our plan to vertically integrate our production may not provide the benefits we foresee.

Over the last several years, we have increasingly produced our products in-house. We have made this strategic decision because of our belief that it will facilitate our control over the costs of components in our products. The price of components is extremely important where the per-unit sales price is as low as it is in our industry. Thus, we believe it is important to control costs as much as possible.

That being said, when we produce components in-house that we previously purchased from a third-party supplier, we may not benefit from the economies of scale that a dedicated third-party supplier could see. Moreover, we invest in infrastructure for such production, such as buying machines and leasing additional facility space; in the event new technology is developed to produce components of our products more cheaply than we can with our existing infrastructure, we could find that our operating results are negatively impacted, compared with what we would see if we were purchasing from third parties. In such case, our products could be more expensive than those of our competitors that purchase from third-party suppliers, which could make our products less attractive to customers.

Our reliance on third party logistics providers may put us at risk of service failures for our customers.

We rely on third parties to ship our products from China to our customers. We compete based on price, quality and reliability, so a failure to deliver our products on time to our large customers could harm our reputation. To the extent we are unable to meet their demand for products or do not deliver products on time, we stand a substantial risk of losing key accounts. Because we rely on third parties for logistics services, we may be unable to avoid supply chain failures, even if we are able to meet our manufacturing obligations to customers.

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

We rely on a combination of patent, trademark, domain name and trade secret laws and non-disclosure agreements and other methods to protect our intellectual property rights. Our Mainland China Subsidiaries own 135 patents and 188 trademarks in China and 66 patents and 47 trademarks outside China, all of which have been properly registered with regulatory agencies such as the State Intellectual Property Office and Trademark Office of China's State Administration for Industry and Commerce ("SAIC"). This intellectual property has allowed our products to earn market share in the pet products industry.

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

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

In accordance with Chinese intellectual property laws and regulations, we will have to renew our trademarks once the terms expire. However, patents are not renewable. Some of our patents, particularly utility model and design patents, have only 10 years of protection and will end in the near future. Once these patents expire, our products may lose some market share if they are copied by our competitors. Then, our business revenue might suffer some loss as well.

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

Our Chinese patents and registered marks may not be protected outside of China due to territorial limitations on enforceability.

In general, patent and trademark rights have territorial limitations in law and are valid only within the countries in which they are registered.

At present, Chinese enterprises may register their trademarks overseas through two methods. One is to file an application for trademark registration in each single country or region in which protection is desired, while the other is to apply via the Madrid system for international trademark registration. By the second way, under the provisions of the Madrid Agreement concerning the International Registration of Marks (the "Madrid Agreement") or the Protocol Relating to the Madrid Agreement concerning the International Registration of Marks (the "Madrid Protocol"), applicants may designate their marks in one or more member countries via the Madrid system for international registration.

As of the date of the filing, we have registered 188 trademarks in China. We have also registered our key trademarks in Japan, Australia, Korea, Hong Kong, Taiwan and the United States.

Similar with trademarks, Chinese enterprises may also register their patents overseas through two methods. One is to file an application for patent registration in each single country or region, and the other is to file international application with the China Intellectual Property Office or the International Bureau of World Intellectual Property Organization under the Patent Cooperation Treaty. However, such international application may relate to invention or utility model patents, but does not include industrial design patents.

Currently, most of our patents and trademarks are registered in China. If we do not register them in other jurisdictions, they may not be protected outside of China. As a result, our business and competitive position could be harmed.

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

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

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

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

Outstanding bank loans may reduce our available funds.

As of June 30, 2023, we had approximately \$5.4 million in outstanding bank loans, with expected repayment of approximately \$3.8 million in one year, \$0.7 million in two years and \$0.9 million in three to seven years. The loans are guaranteed by the fixed assets of the Company's subsidiaries and are also personally guaranteed by our Chief Executive Officer and certain of his family members. While we believe we have sufficient capital resources to repay these bank loans with support from Mr. Silong Chen, our Chief Executive Officer, there can be no guarantee that we will be able to pay all amounts when due or to refinance the amounts on terms that are acceptable to us or at all. If we are unable to make our payments when due or to refinance such amounts, our property could be foreclosed and our business could be negatively affected.

While we do not believe they will impact our liquidity, the terms of the debt agreements impose significant operating and financial restrictions on us. These restrictions could also have a negative impact on our business, financial condition and results of operations by significantly limiting or prohibiting us from engaging in certain transactions, including but not limited to: incurring or guaranteeing additional indebtedness; transferring or selling assets currently held by us; and transferring ownership interests in certain of our subsidiaries. The failure to comply with any of these covenants could cause a default under our other debt agreements. Any of these defaults, if not waived, could result in the acceleration of all of our debt, in which case the debt would become immediately due and payable. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance it on favorable terms, if any.

If the village cooperative from which we rent our factory in Dongguan fails to provide ownership certificates or construction approvals on demand, our ability to use our facilities may be impaired.

Our Mainland China Subsidiaries lease our production facility from Dongguan Dongcheng District Tongsha Huanggongkeng Co-op (“Huanggongkeng”). We understand that, as is not uncommon in our area, Huanggongkeng did not obtain prior government approval before constructing the facilities and thus may be unable to provide evidence of government approval. If the local authority were to request proof of such approval, operations at our facility could be interrupted until Huanggongkeng was able to provide evidence of such approvals. If Huanggongkeng were unable to rectify this issue, we could find our operations halted indefinitely.

If the value of our property decreases, we may not be able to refinance our current debt.

All of our current debt is secured by either mortgages on real and other business property or guarantees by some of our shareholders. If the value of our real property decreases, we may find that banks are unwilling to loan money to us secured by our business property. A drop in property value could also prevent us from being able to refinance that loan when it becomes due on acceptable terms or at all.

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 and initiatives. Additional debt financing may include conditions that would restrict our freedom to operate our business, such as conditions 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 any additional financing on terms that are acceptable to us, or at all.

The loss of any of our key customers could reduce our revenues and our profitability.

Our key customers are principally retail pet specialty stores and mass merchandisers. For the year ended June 30, 2023, sales to our four largest customers amounted in the aggregate to approximately 15.4%, 11.6%, 8.8% and 5.3% of our total revenue. For the year ended June 30, 2022, sales to our four largest customers accounted for 23.4%, 6.7%, 6.7% and 5.7% of our total revenue. For the year ended June 30, 2021, sales to our three largest customers amounted in the aggregate to approximately 32.0%, 9.1% and 6.9% of our total revenue. There can be no assurance that we will maintain or improve the relationships with these customers, or that we will be able to continue to supply these customers at current levels or at all. Any failure to pay by these customers could have a material negative effect on our company's business. In addition, having a relatively small number of customers may cause our quarterly results to be inconsistent, depending upon when these customers pay for outstanding invoices. During the years ended June 30, 2023, 2022 and 2021, we had two, one and one customer that accounted for 10% or more of our revenues.

Our bank accounts are not fully insured or protected against loss.

We maintain our cash with various banks and trust companies located in mainland China. Our cash accounts in mainland China are not insured or otherwise protected. Should any bank or trust company holding our cash deposits become insolvent, or if we are otherwise unable to withdraw funds, we would lose the cash on deposit with that particular bank or trust company.

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

We are highly dependent on our senior management to manage our business and operations and our key research and development personnel for the development of new products and the enhancement of our existing products and technologies. In particular, we rely substantially on our Chief Executive Officer, Mr. Silong Chen.

While we provide the legally required personal insurance for the benefit of our employees, we do not maintain key person life insurance on any 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 quickly locate a suitable replacement for any senior management or key personnel that we lose. In addition, if any member of our senior management or key personnel joins a competitor or forms a competing company, they may compete with us for customers, business partners and other key professionals and staff members of our company. Although each of our senior management and key personnel has signed a confidentiality and non-competition agreement in connection with his employment with us, we cannot assure you that we will be able to successfully enforce these provisions in the event of a dispute between us and any member of our senior management or key personnel.

In our efforts to develop new products, we compete for qualified personnel with technology companies and research institutions. Although we have our own research and development team, we also rely heavily on our cooperation with another software development company, which has been helping us develop our high-tech products. This relationship has become an important part of our company's business development. If this relationship becomes unstable or is terminated in the future, we may be unable to meet our business and financial goals.

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

Our growth strategy includes increasing market penetration of our existing products, developing new products and increasing the number and size of customers we serve. Pursuing these strategies has resulted in, and will continue to result in, substantial demands on management resources. In particular, the management of our growth will require, among other things:

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

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

Because we rely on Hong Kong entities to fulfill orders from many of our customers, we may be exposed to claims of value-added tax underreporting.

Many of our international customers order our products by placing an order with our Hong Kong Subsidiaries. Our Hong Kong Subsidiaries then procure the products from our Mainland China Subsidiaries. When these products are sold from our Mainland China Subsidiaries to our Hong Kong Subsidiaries, the price paid is set at what we believe to be a fair value. Further, we have informed the applicable tax bureaus of the pricing of products. Nevertheless, the tax bureau in the future may claim that we have engaged in transfer pricing to avoid payment of value-added tax (“VAT”) because the price our Hong Kong Subsidiary charges to the customer may be higher than the price our Mainland China Subsidiaries charge to our Hong Kong Subsidiaries. Under PRC law, the VAT is refundable on export, so we believe there is limited risk in the event that we were called upon to pay VAT on such transfers from China to Hong Kong, but a failure to report proper VAT payable could expose us to penalties and interest for failing to pay it on time.

We may be subject to penalties under relevant PRC laws and regulations due to failure to make full social security and housing fund contributions for some of our employees.

In the past, contributions by some of our Mainland China Subsidiaries for some of their employees to the social security and housing funds may not have been in compliance with relevant PRC regulations. Pursuant to the Regulation on the Administration of Housing Accumulation Funds, as amended in 2002, the relevant housing fund authority may order an enterprise to pay outstanding contributions within a prescribed time limit. Pursuant to the PRC Social Insurance Law promulgated in 2010, the social security authority may order an enterprise to pay the outstanding contributions within a prescribed time limit, and may impose penalties if there is a failure to do so. To the extent the relevant authorities determine we have underpaid, some of our Mainland China Subsidiaries may be required to pay outstanding contributions and penalties to the extent they did not make full contributions to the social security housing funds.

Risks Related to Our Corporate Structure and Operation

Our dual class structure concentrate a majority of voting power in our Chief Executive Officer, who is the only owner of our Class B Common Shares.

Our Class B Common Shares have ten votes per share, and our Class A Common Shares have one vote per share. Our directors, executive officers, and their affiliates, beneficially hold in the aggregate approximately 73.80% of the voting power of our capital stock as of June 30, 2023. Because of the ten-to-one voting ratio between our Class B and Class A Common Shares, the holder of our Class B Common Shares collectively control a majority of the combined voting power of our Common Shares and therefore is able to control all matters submitted to our shareholders for approval. The sole owner of such Class B Common Shares is our Chief Executive Officer, Mr. Silong Chen, who owns 9,069,000 Class B Common Shares through Fine victory holding company Limited. This concentrated control may limit or preclude your ability to influence corporate matters for the foreseeable future, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring shareholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that you may feel are in your best interest as one of our shareholders.

Future transfers by holders of Class B Common Shares will generally result in those shares converting to Class A Common Shares, subject to limited exceptions, such as certain transfers effected for estate planning purposes. The conversion of Class B Common Shares to Class A Common Shares will have the effect, over time, of increasing the relative voting power of those holders of Class B Common Shares who retain their shares in the long term.

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

As a publicly listed 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 will be governed by U.S. laws that our non-publicly traded competitors are not required to follow. To the extent compliance with U.S. laws increases our expenses or decreases our competitiveness against such companies, our public listing could affect our results of operations.

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

As a foreign private issuer, we are 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 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.

As a foreign private issuer, we are permitted to rely on exemptions from certain Nasdaq corporate governance standards applicable to U.S. issuers, including the requirement that a majority of an issuer's directors consist of independent directors. If we opt to rely on such exemptions in the future, such decision might afford less protection to holders of our Class A Common Shares.

Section 5605(b)(1) of the Nasdaq Listing Rules requires listed companies to have, among other things, a majority of its board members to be independent, and Section 5605(d) and 5605(e) require listed companies to have independent director oversight of executive compensation and nomination of directors. As a foreign private issuer, however, we are permitted to follow home country practice in lieu of the above requirements. Our Board of Directors could make such a decision to depart from such requirements by ordinary resolution.

The corporate governance practice in our home country, the British Virgin Islands, does not require a majority of our board to consist of independent directors or the implementation of a nominating and corporate governance committee. Since a majority of our board of directors would not consist of independent directors if we relied on the foreign private issuer exemption, fewer board members would be exercising independent judgment and the level of board oversight on the management of our company might decrease as a result. In addition, we could opt to follow British Virgin Islands law instead of the Nasdaq requirements that mandate that we obtain shareholder approval for certain dilutive events, such as an issuance that will result in a change of control, certain transactions other than a public offering involving issuances of 20% or greater interests in the company and certain acquisitions of the shares or assets of another company. For a description of the material corporate governance differences between the Nasdaq requirements and British Virgin Islands law, see "Description of Share Capital — Differences in Corporate Law".

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

While we have purchased insurance, including export transportation, product liability and account receivable insurance, to cover certain assets and property of our business, the amounts and scope of coverage could leave our business inadequately protected from loss. For example, our subsidiaries do not have coverage of business interruption insurance. If we were to incur substantial losses or liabilities due to fire, explosions, floods, other natural disasters or accidents or business interruption, our results of operations could be materially and adversely affected.

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

On August 8, 2006, six Chinese regulatory agencies, including the MOFCOM, jointly issued the M&A Rules, which became effective on September 8, 2006 and amended on June 22, 2009. The M&A Rules contains provisions that require that an offshore SPV formed for 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. On September 21, 2006, the CSRC published procedures specifying documents and materials required to be submitted to it by an SPV seeking CSRC approval of overseas listings. However, the application of the 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. We have not chosen to voluntarily request approval under the M&A Rules. Based on the understanding of the current PRC law, rules and regulations, we believe that the CSRC’s approval may not be required for the listing and trading of our common shares on Nasdaq in the context of this offering, given that Dogness was not established by a merger with or an acquisition of any mainland China domestic companies as defined under the M&A Rules.

If the CSRC requires that we obtain its approval prior to the completion of this offering under the M&A Rules, the offering will be delayed until we obtain CSRC approval, which may take several months. There is also the possibility that we may not be able to obtain such approval. 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, delay or restrict the repatriation of the proceeds from this offering into 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 Class A Common Shares. The CSRC or other Chinese regulatory agencies may also take actions requiring us, or making it advisable for us, to terminate this offering prior to closing.

Risks Related to Ownership of Our Class A Common Shares

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 Class A Common Shares may decline.

Prior to our initial public offering in 2017, we were a private company with limited accounting personnel and other resources with which to address our internal controls and procedures. Our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting. However, in preparing our consolidated financial statements in connection with this annual report, we and our independent registered public accounting firm identified material weaknesses in our internal control over financial reporting, as defined in the standards established by the Public Company Accounting Oversight Board of the United States, or PCAOB, and other control deficiencies. One material weakness identified relates to (i) a lack of full-time accounting and financial reporting personnel with appropriate knowledge of U.S. GAAP and SEC reporting and compliance requirements; (ii) a lack of an effective review process by management, which led to material audit adjustments for the year ended June 30, 2020 and (iii) lack of risk assessment in accordance with the requirement of COSO 2013 framework. Following the identification of the material weaknesses and control deficiencies, we have taken and plan to continue to take remedial measures, including (i) hiring external financial consultants with experience in U.S. GAAP and SEC reporting obligations (ii) hiring more qualified accounting personnel with relevant U.S. GAAP and SEC reporting experience and qualifications to strengthen the financial reporting function and to set up a financial and system control framework; (iii) implementing regular and continuous U.S. GAAP accounting and financial reporting training programs for our accounting and financial reporting personnel; (iv) setting up an internal audit function as well as engaging an external consulting firm to assist us with assessment of Sarbanes-Oxley compliance requirements and improvement of overall internal control;. However, the implementation of these measures may not fully address the material weaknesses in our internal control over financial reporting. Our failure to correct the material weaknesses or our failure to discover and address any other material weaknesses or control deficiencies could result in inaccuracies in our financial statements and could also impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. Moreover, ineffective internal control over financial reporting significantly hinders our ability to prevent fraud.

As a public company, we will be required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. In addition, we are required to furnish a report by management on the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. As of the date hereof, management has concluded that such controls are ineffective.

As of June 30, 2023, we are not an “accelerated filer” or a “large accelerated filer” under the definitions of the Exchange Act rules and therefore our independent registered public accounting firm is not required to attest to the effectiveness of our internal control over financial reporting. Our independent registered public accounting firm will be required to attest to that in the event we become an “accelerated filer” or a “large accelerated filer” under the definitions of the Exchange Act rules.

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 Class A 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.

Recent joint statement by the SEC and PCAOB, proposed rule changes submitted by Nasdaq, and an act passed by the US Senate all call for additional and more stringent criteria to be applied to emerging market companies upon assessing the qualification of their auditors, especially the non-U.S. auditors who are not inspected by the PCAOB. These developments could add uncertainties to our offering.

In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC, and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. The PCAOB continues to be in discussions with the CSRC, and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.

On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in an issue that has vexed U.S. regulators in recent years.

On April 21, 2020, SEC Chairman Jay Clayton and PCAOB Chairman William D. Duhnke III, along with other senior SEC staff, released a joint statement highlighting the risks associated with investing in companies based in or have substantial operations in emerging markets including China. The joint statement emphasized the risks associated with lack of access for the PCAOB to inspect auditors and audit work papers in China and higher risks of fraud in emerging markets.

On May 20, 2020, the U.S. Senate passed the Holding Foreign Companies Accountable Act (“HFCA Act”) requiring a foreign company to certify it is not owned or controlled by a foreign government if the PCAOB is unable to audit specified reports because the company uses a foreign auditor not subject to PCAOB inspection. If the PCAOB is unable to inspect the company’s auditors for three consecutive years, the issuer’s securities are prohibited to trade on a national exchange. On December 2, 2020, the U.S. House of Representatives approved the HFCA Act. On December 18, 2020, the HFCA Act was signed into law.

On June 4, 2020, the U.S. President issued a memorandum ordering the President’s Working Group on Financial Markets, or the PWG, to submit a report to the President within 60 days of the memorandum that includes recommendations for actions that can be taken by the executive branch and by the SEC or PCAOB on Chinese companies listed on U.S. stock exchanges and their audit firms, in an effort to protect investors in the U.S.

On August 6, 2020, the PWG released a report recommending that the SEC take steps to implement the five recommendations outlined in the report. In particular, to address companies from jurisdictions that do not provide the PCAOB with sufficient access to fulfill its statutory mandate, or NCJs, the PWG recommends enhanced listing standards on U.S. stock exchanges. This would require, as a condition to initial and continued exchange listing, PCAOB access to work papers of the principal audit firm for the audit of the listed company. Companies unable to satisfy this standard as a result of governmental restrictions on access to audit work papers and practices in NCJs may satisfy this standard by providing a co-audit from an audit firm with comparable resources and experience where the PCAOB determines it has sufficient access to audit work papers and practices to conduct an appropriate inspection of the co-audit firm. There is currently no legal process under which such a co-audit may be performed in China. The report permits the new listing standards to provide for a transition period until January 1, 2022 for listed companies, but would apply immediately to new listings once the necessary rulemakings and/or standard-setting are effective. The measures in the PWG Report are presumably subject to the standard SEC rulemaking process before becoming effective. On August 10, 2020, the SEC announced that SEC Chairman had directed the SEC staff to prepare proposals in response to the PWG Report, and that the SEC was soliciting public comments and information with respect to these proposals. After we are listed on the Nasdaq Capital Market, if we fail to meet the new listing standards before the deadline specified thereunder due to factors beyond our control, we could face possible de-listing from the NASDAQ Capital Market, deregistration from the SEC and/or other risks, which may materially and adversely affect, or effectively terminate, our Class A Common Shares trading in the United States.

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

Furthermore, the HFCA Act, which requires that the PCAOB be permitted to inspect the issuer’s public accounting firm within three years, may result in the delisting of our Company in the future if the PCAOB is unable to inspect our accounting firm at such future time.

In addition, on June 22, 2021, the U.S. Senate passed the Accelerating Holding Foreign Companies Accountable Act (“AHFCAA”), which, if signed into law, would amend the HFCA Act and require the SEC to prohibit an issuer’s securities from trading on any U.S. stock exchanges if its auditor is not subject to PCAOB inspections for two consecutive years instead of three consecutive years.

On November 5, 2021, the SEC approved the PCAOB’s Rule 6100, Board Determinations Under the Holding Foreign Companies Accountable Act. Rule 6100 provides a framework for the PCAOB to use when determining, as contemplated under the HFCA Act, whether it is unable to inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction. On December 16, 2021, the PCAOB issued a Determination Report which found that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in: (1) mainland China, and (2) Hong Kong.

On August 26, 2022, the CSRC, the Ministry of Finance of the PRC (the “MOF”), and the PCAOB signed a Statement of Protocol (the “Protocol”), governing inspections and investigations of audit firms based in China and Hong Kong. On December 15, 2022, the PCAOB determined that it was able to secure complete access to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong and vacated its previous Determinations to the contrary. However, should PRC authorities obstruct or otherwise fail to facilitate the PCAOB’s access in the future, the PCAOB may consider the need to issue a new determination. On December 29, 2022, the Accelerating Holding Foreign Companies Accountable Act was signed into law as part of the “Consolidated Appropriations Act 2023” (the “Consolidated Appropriations Act”), reducing the number of consecutive non-inspection years required for triggering the prohibitions under the HFCA Act from three years to two.

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this prospectus, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Our auditor, Audit Alliance LLP, is located in Singapore, and is subject to inspection by the PCAOB on a regular basis. In the event that, in the future, either there is any regulatory change or step taken by PRC regulators that does not permit Audit Alliance LLP to provide audit documentations located in mainland China or Hong Kong to the PCAOB for inspection or investigation, you may be deprived of the benefits of such inspection which could result in limitation or restriction to our access to the U.S. capital markets and trading of our securities, including “over-the-counter” trading, may be prohibited, under the HFCA Act. The recent developments would add uncertainties to our offering and we cannot assure you whether the national securities exchange we apply to for listing or regulatory authorities would apply additional and more stringent criteria to us after considering the effectiveness of our auditor’s audit procedures and quality control procedures, adequacy of personnel and training, or sufficiency of resources, geographic reach, or experience as it relates to our audit.

Our management team has limited experience in managing a U.S. public company and complying with laws applicable to such company, the failure of which may adversely affect our business, financial conditions and results of operations.

Our current management team has limited experience in managing a U.S. publicly traded company, interacting with public company investors and complying with the increasingly complex laws pertaining to U.S. public companies. Prior to the completion of our initial public offering, we mainly operated our businesses as a private company in mainland China. As a result of our IPO, our company became subject to significant regulatory oversight and reporting obligations under the federal securities laws and the scrutiny of securities analysts and investors, and our management currently has limited experience in complying with such laws, regulations and obligations. These obligations and constituents will require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely affect our business, financial conditions and results of operations.

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

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (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 now 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. In addition, as long as we are listed on the Nasdaq Global Market, we are also required to file semi-annual financial statements.

We expect these 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 incur additional costs associated with our public company reporting requirements. While it is impossible to determine the amounts of such expenses in advance, we expect that we will incur expenses of between \$500,000 and \$1 million per year that we did not experience prior to commencement of our initial public offering.

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

We also expect that being a public company and these 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 market price of our Class A Common Shares may be volatile or may decline regardless of our operating performance.

The trading prices for our Class A Common Shares have fluctuated since we first listed our Class A Common Shares. Since our Class A Common Shares became listed on the Nasdaq on December 20, 2017, the trading price of our Class A Common Shares has ranged from \$0.43 to \$8.98 per common share, and the last reported trading price on October 10, 2023 was \$0.43 per common share. If you purchase our Class A Common Shares, you may not be able to resell those shares at or above your purchase price. The market price of our Class A 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; 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.

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

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

We are subject to liability risks stemming from our foreign status, which could make it more difficult for investors to sue or enforce judgments against our company.

Most of our operations and assets are located in the PRC. In addition, all of our executive officers and directors are non-residents of the U.S., and much of 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.

In addition, British Virgin Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. The circumstances in which any such action may be brought, and the procedures and defenses that may be available in respect to any such action, may result in the rights of shareholders of a British Virgin Islands company being more limited than those of shareholders of a company organized in the United States. Accordingly, shareholders may have fewer alternatives available to them if they believe that corporate wrongdoing has occurred.

Any final and conclusive monetary judgment obtained against a BVI company in the courts of a federal court of the United States (the “**Foreign Court**”) for a definite sum, may be treated by the courts of the British Virgin Islands as a cause of action in itself so that no retrial of the issues would be necessary provided that in respect of the judgment of the Foreign Court: (i) the Foreign Court issuing the judgment had jurisdiction in the matter and a BVI company either submitted to such jurisdiction or was resident or carrying on business within such jurisdiction and was duly served with process; (ii) the judgment given by the Foreign Court was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of the BVI company; (iii) in obtaining judgment there was no fraud on the part of the person in whose favour judgment was given or on the part of the Foreign Court; (iv) recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy and (v) the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

Lastly, under the law of the British Virgin Islands, there is little statutory law for the protection of minority shareholders. The principal protection under statutory law is that shareholders may bring an action to enforce the constituent documents of the corporation, 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 Articles and Memorandum.

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.

Our board of directors may decline to register transfers of Class A Common Shares in certain circumstances.

Our board of directors may, in its sole discretion, decline to register any transfer of any Class A Common Share which is not fully paid up or on which we have a lien. Our directors may also decline to register any transfer of any share unless (i) the instrument of transfer is lodged with us, accompanied by the certificate for the shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer; (ii) the instrument of transfer is in respect of only one class of shares; (iii) the instrument of transfer is properly stamped, if required; (iv) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; (v) the shares conceded are free of any lien in favor of us; or (vi) a fee of such maximum sum as Nasdaq may determine to be payable, or such lesser sum as our board of directors may from time to time require, is paid to us in respect thereof.

If our directors refuse to register a transfer they shall send to each of the transferor and the transferee notice of such refusal. The registration of transfers may, on 14 days’ notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year.

You may be unable to present proposals before general meetings not called by shareholders.

British Virgin Islands law provides shareholders with only limited rights to requisition a general meeting and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our Articles of Association allow our shareholders holding shares representing in aggregate not less than 30% of our voting rights in issue, to requisition a meeting of our shareholders, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting.

Although our Articles of Association do not provide our shareholders with any right to put any proposals before a general meetings not called by such shareholders, any shareholder may submit a proposal to our Board of Directors for consideration of inclusion in a proxy statement. Advance notice of at least seven (7) calendar days is required for the convening of our shareholders' meeting. A quorum required for a meeting of shareholders consists of at least one shareholder present in person or by proxy, representing not less than one-half of the total issued voting power of each class of shares entitled to vote as a class. In the event we do not have quorum at the time set for the meeting, we are required to adjourn the meeting until the following week, at which time quorum will be satisfied if shares representing at least one-third of the total issued voting power of our company are present in person or by proxy.

Risks Related to Doing Business in China

Adverse changes in political, economic and other policies of the Chinese government could have a material adverse effect on the overall economic growth of China, which could materially and adversely affect the growth of our business and our competitive position.

The majority of our business operations are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. We are subject to legal and operational risks associated with being based in and having the majority of the company's operations in mainland China and Hong Kong. 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 PRC government exercises significant control over China's economic growth through strategic allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

The Chinese government may intervene or influence the operation of our Hong Kong and mainland China operating entities and exercise significant oversight and discretion over the conduct of their business and may intervene in or influence their operations at any time with little advance notice, or may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, which could result in a material change in our operations and/or the value of our Class A Common Shares.

While the Chinese economy has experienced significant growth in the past decades, growth has been uneven, both geographically and among various sectors of the economy. The growth of the Chinese economy may not continue at a rate experienced in the past, and the impact of COVID-19 on the Chinese economy may continue. Any prolonged slowdown in the Chinese economy may reduce the demand for our services and materially and adversely affect our business and results of operations. Furthermore, any adverse change in the economic conditions in China, in policies of the PRC government or in laws and regulations in China could have a material adverse effect on the overall economic growth of China and market demand for our outsourcing services. Such developments could adversely affect our businesses, lead to reduction in demand for our services and adversely affect our competitive position.

Uncertainties with respect to the mainland China legal system could have a material adverse effect on us.

The mainland China legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. We conduct our business primarily through our subsidiaries established in China.

These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China. However, since these laws and regulations are relatively new and the mainland China legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. Recently, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the “Opinions on Severely Cracking Down on Illegal Securities Activities According to Law,” or the Opinions, which was made available to the public on July 6, 2021. The Opinions emphasized the need to strengthen the administration over illegal securities activities, and the need to strengthen the supervision over overseas listings by Chinese companies. Effective measures, such as promoting the construction of relevant regulatory systems will be taken to deal with the risks and incidents of China-concept overseas listed companies, and cybersecurity and data privacy protection requirements, etc. The Opinions and any related implementing rules to be enacted may subject us to compliance requirement in the future. In addition, some regulatory requirements issued by certain mainland China government authorities may not be consistently applied by other government authorities (including local government authorities), thus making strict compliance with all regulatory requirements impractical, or in some circumstances impossible. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since mainland China administrative and court authorities have discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners, customers and suppliers. In addition, such uncertainties, including any inability to enforce our contracts, together with any development or interpretation of mainland China law that is adverse to us, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other more developed countries. We cannot predict the effect of future developments in the mainland China legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

China’s economic, political and social conditions, as well as changes in any government policies, laws and regulations may be quick with little advance notice and, could have a material adverse effect on our business and the value of our Class A Common Shares.

Our business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in China. For example, as a result of recent proposed changes in the cybersecurity regulations in China that would require certain Chinese technology firms to undergo a cybersecurity review before being allowed to list on foreign exchanges, this may have a material adverse effect on our business and the value of our Class A Ordinary Share.

China's economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past two to three decades, growth has been uneven, both geographically and among various sectors of the economy. Demand for target services and products depends, in large part, on economic conditions in China. Any slowdown in China's economic growth may cause our potential customers to delay or cancel their plans to purchase our services and products, which in turn could reduce our net revenues.

Although China's economy has been transitioning from a planned economy to a more market oriented economy since the late 1970s, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through allocating resources, controlling the incurrence and payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Changes in any of these policies, laws and regulations may be quick with little advance notice and could adversely affect the economy in China and could have a material adverse effect on our business and the value of our Class A Common Shares.

The PRC government has implemented various measures to encourage foreign investment and sustainable economic growth and to guide the allocation of financial and other resources. However, we cannot assure you that the PRC government will not repeal or alter these measures or introduce new measures that will have a negative effect on us, or more specifically, we cannot assure you that the PRC government will not initiate possible governmental actions or scrutiny to us, which could substantially affect our operation and the value of our Common Shares may depreciate quickly. China's social and political conditions may change and become unstable. Any sudden changes to China's political system or the occurrence of widespread social unrest could have a material adverse effect on our business and results of operations.

The Chinese government exerts substantial influence over the manner in which we must conduct our business activities and may intervene or influence our operations at any time, which could result in a material change in our operations and the value of our Class A Common Shares.

The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to securities regulation, data protection, cybersecurity and mergers and acquisitions and other matters. The central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Government actions in the future could significantly affect economic conditions in China or particular regions thereof, and could require us to materially change our operating activities or divest ourselves of any interests we hold in Chinese assets. Our business may be subject to various government and regulatory interference in the provinces in which we operate. We may incur increased costs necessary to comply with existing and newly adopted laws and regulations or penalties for any failure to comply. Our operations could be adversely affected, directly or indirectly, by existing or future laws and regulations relating to our business or industry.

Given recent statements by the Chinese government indicating an intent to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers, any such action could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or become worthless.

Among other things, China's M&A Rules and the Anti-Monopoly Law established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that State Administration for Market Regulation (SAMR) be notified in advance of any change-of-control transaction in which a foreign investor acquires control of a mainland China domestic enterprise or a foreign company with substantial mainland China operations, if certain thresholds are triggered. Moreover, the Anti-Monopoly Law requires that transactions which involve the national security, the examination on the national security shall also be conducted according to the relevant provisions of the State. In addition, PRC Measures for the Security Review of Foreign Investment which became effective in January 2021 require acquisitions by foreign investors of mainland China companies engaged in military-related or certain other industries that are crucial to national security be subject to security review before consummation of any such acquisition. We may pursue potential strategic acquisitions in China that are complementary to our business and operations. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Recently, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the Opinions on Severely Cracking Down on Illegal Securities Activities According to Law, or the Opinions, which was made available to the public on July 6, 2021. The Opinions emphasized the need to strengthen the administration over illegal securities activities, and the need to strengthen the supervision over overseas listings by Chinese companies. Effective measures, such as promoting the construction of relevant regulatory systems, will be taken to deal with the risks and incidents of China-concept overseas listed companies. As of the date of this prospectus, we have not received any inquiry, notice, warning, or sanctions from PRC government authorities in connection with the Opinions.

On June 10, 2021, the Standing Committee of the National People's Congress of China, or the SCNPC, promulgated the PRC Data Security Law, which took effect in September 2021. The PRC Data Security Law imposes data security and privacy obligations on entities and individuals carrying out data activities, and introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, and the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, illegally acquired or used. The PRC Data Security Law also provides for a national security review procedure for data activities that may affect national security and imposes export restrictions on certain data information.

In early July 2021, regulatory authorities in China launched cybersecurity investigations with regard to several China-based companies that are listed in the United States. The Chinese cybersecurity regulator announced on July 2 that it had begun an investigation of Didi Global Inc. (NYSE: DIDI) and two days later ordered that the company's app be removed from smartphone app stores. On July 5, 2021, the Chinese cybersecurity regulator launched the same investigation on two other Internet platforms, China's Full Truck Alliance of Full Truck Alliance Co. Ltd. (NYSE: YMM) and Boss of KANZHUN LIMITED (Nasdaq: BZ). On July 24, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly released the Guidelines for Further Easing the Burden of Excessive Homework and Off-campus Tutoring for Students at the Stage of Compulsory Education, pursuant to which foreign investment in such firms via mergers and acquisitions, franchise development, and variable interest entities are banned from this sector.

On November 14, 2021, the CAC released the Regulations on the Network Data Security Management (Draft for Comments), or the Data Security Management Regulations Draft, to solicit public opinion and comments. Pursuant to the Data Security Management Regulations Draft, data processor holding more than one million users/users' individual information shall be subject to cybersecurity review before listing abroad. Data processing activities refers to activities such as the collection, retention, use, processing, transmission, provision, disclosure, or deletion of data. According to the latest amended Cybersecurity Review Measures, which was promulgated on December 28, 2021, and will become effective on February 15, 2022 and replace the Cybersecurity Review Measures promulgated on April 13, 2020, an online platform operator holding more than one million users/users' individual information shall be subject to cybersecurity review before listing abroad. Since the Cybersecurity Review Measures is new, the implementation and interpretation thereof is not yet clear. As of the date of this prospectus, we have not been informed by any PRC governmental authority of any requirement that we file for approval for this offering.

On August 17, 2021, the State Council promulgated the Regulations on the Protection of the Security of Critical Information Infrastructure, or the Regulations, which took effect on September 1, 2021. The Regulations supplement and specify the provisions on the security of critical information infrastructure as stated in the Cybersecurity Review Measures. The Regulations provide, among others, that protection department of certain industry or sector shall notify the operator of the critical information infrastructure in time after the identification of certain critical information infrastructure.

On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law of the PRC, or the Personal Information Protection Law, which took effect in November 2021. As the first systematic and comprehensive law specifically for the protection of personal information in the PRC, the Personal Information Protection Law provides, among others, that (i) an individual's consent shall be obtained to use sensitive personal information, such as biometric characteristics and individual location tracking, (ii) personal information operators using sensitive personal information shall notify individuals of the necessity of such use and impact on the individual's rights, and (iii) where personal information operators reject an individual's request to exercise his or her rights, the individual may file a lawsuit with a People's Court. Given that the above mentioned newly promulgated laws, regulations and policies were recently promulgated or issued, and have not yet taken effect (as applicable), their interpretation, application and enforcement are subject to substantial uncertainties. See "Risk Factor — *We may be liable for improper use or appropriation of personal information provided by our customers*" and "Risk Factors — *Our failure to obtain prior approval of the China Securities Regulatory Commission ("CSRC") for the listing and trading of our Class A Common Shares on a foreign stock exchange could delay this offering or could have a material adverse effect upon our business, operating results, reputation and trading price of our Class A Common Shares.*"

The Chinese government exerts oversight and control over overseas offerings and listing conducted by China-based issuers under the Listing Records Rules and/or the Confidentiality Provisions, which could significantly limit or completely hinder our ability to offer or continue to offer our Class A Common Shares to investors and could cause the value of our Class A Common Shares to significantly decline or become worthless.

On February 17, 2023, with the approval of the State Council, the CSRC issued the Listing Records Rules, including the Trial Measures, for the administration of overseas listing filing system, which has been implemented since March 31, 2023. Under the Listing Records Rules, a company established in mainland China seeking securities offering and listing, by both direct or indirect means, in an overseas market are required to undertake filing procedures with the CSRC for its overseas offering and listing activities. Further, the Trial Measures set forth a list of circumstance under which overseas offering and listing by PRC domestic companies is prohibit, including: (i) where such securities offering and listing is explicitly prohibited by the PRC laws; (ii) where the intended securities offering and listing may endanger national security as reviewed and determined by competent PRC authorities under the State Council in accordance with PRC laws; (iii) where the company established in mainland China , or its controlling shareholders and the actual controller, have committed crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three (3) years; (iv) where the company established in mainland China seeking securities offering and listing is suspected of committing crimes or major violations of laws and regulations, and is under investigation according to law, and no conclusion has yet been made thereof; and (v) where there are material ownership disputes over equity held by the controlling shareholder of company established in mainland China or by other shareholders that are controlled by the controlling shareholder and/or actual controller. In accordance with the Trial Measures, the listing and trading of our Class A Common Shares on Nasdaq is deemed as an indirect overseas offering and listing by companies established in China, and thus, we are subject to the Listing Records Rules and the relevant filing procedures as required. Further, we believe, as of the date of this annual report, none of the circumstances prohibiting the overseas offering and listing by companies established in China as listed above applies to us, and we can offer and continue to offer our Class A Common Shares on Nasdaq. In accordance with the Notice on the Arrangement for the Filing of Overseas Offering and Listing by Domestic Companies issued by the CSRC along with the Listing Records Rules on the same day, we are deemed as an “Existing Issuer” because we had been listed overseas before March 31, 2023. Under such Notice, we are not required to undertake the initial filing procedure immediately. However, we shall carry out filing procedures as required by the Trial Measures in a timely manner for subsequent events, including any further follow-up offerings on Nasdaq, dual and/or secondary offering and listing on different overseas markets, and occurrence of material events including change of control, investigations or sanctions imposed by overseas securities regulatory agencies or other relevant competent authorities, change of listing status or transfer of listing segment, and voluntary or mandatory delisting. If we or our Mainland China Subsidiaries in future fail to undertake filing procedures as stipulated in the Trial Measures, or offer and list securities in an overseas market in violation of the Trial Measures, the CSRC may order rectification, issue warnings to us and/or our Mainland China Subsidiaries, and impose a fine of between RMB 1,000,000 yuan and RMB 10,000,000 yuan. The CSRC may also inform its regulatory counterparts in the overseas jurisdictions, such as the SEC, via cross-border securities regulatory cooperation mechanisms.

Further, on February 24, 2023, the CSRC, together with Ministry of Finance, National Administration of State Secrets Protection, and National Archives Administration of China, released the Provisions on Strengthening the Confidentiality and Archives Administration Related to the Overseas Securities Offering and Listing by Domestic Enterprises (the “Confidentiality Provisions”), which came into effect on March 31, 2023 with the Trial Measures. Under the Confidentiality Provisions, companies established in China seeking overseas offering and listing, by both direct and indirect means, are required to institute a sound confidentiality and archives system. If such companies established in China intend to, either directly or through its overseas listed entity, publicly disclose or provide to relevant individuals or entities including securities companies, securities service providers and overseas regulators, any documents and materials that contain state secrets or working secrets of government agencies, they shall obtain approval from competent authorities and complete the relevant filing procedure with the competent secrecy administrative department prior to their disclosure or provision of such documents and materials. Further, if they provide or publicly disclose documents and materials which may adversely affect national security or public interests, they shall strictly follow the corresponding procedures in accordance with relevant laws and regulations. Any failure or perceived failure by us or our subsidiaries to comply with the above confidentiality and archives administration requirements under the Confidentiality Provisions and other relevant PRC laws and regulations may cause relevant entities to be held legally liable by competent authorities, and referred to the judicial organ to be investigated for criminal liability if suspected of committing a crime.

Any failure of us or our Mainland China Subsidiaries to fully comply with the Listing Records Rules may significantly limit or completely hinder our ability to offer or continue to offer our Class A Common Shares on Nasdaq, cause significant disruption to our business operations, severely damage our reputation, materially and adversely affect our financial condition and results of operations and cause our Class A Common Shares to significantly decline in value or become worthless.

The holding company may be subject to approval or other requirement from PRC authorities, and, if required, we cannot assure you that we will be able to obtain such approval or satisfy such requirement. If we failed to obtain such approval or satisfy such requirement, we may not be able to continue listing on U.S. exchange, continue to offer securities to investors, or materially affect the interest of the investors and the value of our Class A Common Shares may decrease or become worthless.

As of the date of this annual report, we or our Subsidiaries have not received any requirement to obtain permission or approval from CSRC or Cyberspace Administration of China. However, recently, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the “Opinions on Severely Cracking Down on Illegal Securities Activities According to Law,” or the Opinions, which was made available to the public on July 6, 2021. The Opinions emphasized the need to strengthen the administration over illegal securities activities, and the need to strengthen the supervision over overseas listings by Chinese companies. Subsequent laws and regulation have been published and implemented, including Listing Records Rules and Confidentiality Provisions. Effective measures, such as promoting the construction of relevant regulatory systems will be taken to deal with the risks and incidents of China-concept overseas listed companies, and cybersecurity and data privacy protection requirements and similar matters. The Opinions and any related implementing rules to be enacted may subject us to compliance requirement in the future.

Given the current regulatory environment in the PRC, we are still subject to the uncertainty of interpretation and enforcement of the rules and regulations in the PRC, which can change quickly with little advance notice, and any future actions of the PRC authorities. It is uncertain when and whether the Company will be required to obtain permission from the PRC government to list on U.S. exchanges (including retroactively), and even if such permission is obtained, whether it will be denied or rescinded. As a result, our operations could be adversely affected, directly or indirectly, by existing or future laws and regulations relating to our business or industry.

PRC laws and regulations governing our current business operations are sometimes vague and uncertain and any changes in such laws and regulations may impair our ability to operate profitably.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations including, but not limited to, the laws and regulations governing our business and the enforcement and performance of our arrangements with customers in certain circumstances. The laws and regulations are sometimes vague and may be subject to future changes, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness and interpretation of newly enacted laws or regulations, including amendments to existing laws and regulations, may be delayed, and our business may be affected if we rely on laws and regulations which are subsequently adopted or interpreted in a manner different from our understanding of these laws and regulations. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our business.

The legal system in mainland China is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value. Since these laws and regulations are relatively new and the legal system in mainland China continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and the enforcement of these laws, regulations and rules involves uncertainties.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of these laws and regulations involve uncertainties. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory provisions and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties may affect our judgment on the relevance of legal requirements and our ability to enforce our contractual rights or tort claims. In addition, the regulatory uncertainties may be exploited through unmerited or frivolous legal actions or threats in attempts to extract payments or benefits from us.

Furthermore, the legal system in mainland China is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. In addition, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the legal system in mainland China is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

Recently, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the “Opinions on Severely Cracking Down on Illegal Securities Activities According to Law,” or the Opinions, which was made available to the public on July 6, 2021. The Opinions emphasized the need to strengthen the administration over illegal securities activities, and the need to strengthen the supervision over overseas listings by Chinese companies. Subsequent laws and regulation have been published and implemented, including Listing Records Rules and Confidentiality Provisions. Effective measures, such as promoting the construction of relevant regulatory systems will be taken to deal with the risks and incidents of China-concept overseas listed companies, and cybersecurity and data privacy protection requirements and similar matters. The Opinions and any related implementing rules to be enacted may subject us to compliance requirement in the future.

Regulation and censorship of information distribution over the Internet in China may adversely affect our business, and we may be liable for information displayed on, retrieved from or linked to our website.

China has enacted laws and regulations governing Internet access and the distribution of products, services, news, information, audio-video programs and other content through the Internet. The PRC government has prohibited the distribution of information through the Internet that it deems to be in violation of PRC laws and regulations. If any of the content on our online platform is deemed to violate any content restrictions by the PRC government, we would not be able to continue to display such content and could become subject to penalties, including confiscation of income, fines, suspension of business and revocation of required licenses, which could materially and adversely affect our business, financial condition and results of operations. We may also be subject to potential liability for any unlawful actions of our customers or customers of our website or for content we distribute that is deemed inappropriate. It may be difficult to determine the type of content that may result in liability to us, and if we are found to be liable, we may be prevented from operating our website in China.

China Securities Regulatory Commission and other Chinese government agencies may exert more oversight and control over offerings that are conducted overseas and foreign investment in China-based issuers, especially those in the technology filed. Additional compliance procedures may be required, and, if required, we cannot predict whether we will be able to obtain such approval. If we are required to obtain PRC governmental permissions to commence any sale of the securities, we will not commence the offering until we obtain such permissions. As a result, we face uncertainty about future actions by the PRC government that could significantly affect our ability to offer or continue to offer securities to investors and cause the value of our securities to significantly decline or be worthless.

On July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly issued a document to crack down on illegal activities in the securities market and promote the high-quality development of the capital market, which, among other things, requires the relevant governmental authorities to strengthen cross-border oversight of law-enforcement and judicial cooperation, to enhance supervision over China-based companies listed overseas, and to establish and improve the system of extraterritorial application of the PRC securities laws. Subsequent laws and regulation have been published and implemented, including Listing Records Rules and related documents and notices, under which certain filing procedures are required to be conducted for foreign listing. We are deemed as an “Existing Issuer” therefore are not required to undertake the initial filing procedure immediately. However, we shall carry out filing procedures as required by the Trial Measures in a timely manner for subsequent events.

Since the document as well as the subsequent laws and regulations published are relatively new, uncertainties still exist in relation to how soon legislative or administrative regulation making bodies will respond and what existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated, if any, and the potential impact such modified or new laws and regulations will have on our future business, results of operations, and the value of our securities.

Further, Chinese government continues to exert more oversight and control over Chinese technology firms. On July 2, 2021, Chinese cybersecurity regulator announced, that it had begun an investigation of Didi Global Inc. (NYSE: DIDI) and two days later ordered that the company’s application be removed from smartphone application stores. On July 5, 2021, the Chinese cybersecurity regulator launched the same investigation on two other Internet platforms, China’s Full Truck Alliance of Full Truck Alliance Co. Ltd. (NYSE: YMM) and Boss of KANZHUN LIMITED (Nasdaq: BZ).

Therefore, China Securities Regulatory Commission and other Chinese government agencies may exert more oversight and control over offerings that are conducted overseas and foreign investment in China-based issuers, especially those in the technology filed. As of the date of this annual report, we have not received any requirement to obtain approval of CSRC to continue listing on U.S. exchanges. Further, however, given the current regulatory environment in the PRC, we are still subject to the uncertainty of interpretation and enforcement of the rules and regulations in the PRC, which can change quickly with little advance notice, and any future actions of the PRC authorities, additional compliance procedures may be required in connection with any offering of our securities and our business operations. If such compliance procedures were required in the future in connection with any offering of our securities and our business operations, we cannot predict whether we will be able to obtain such approval. If we are unable to obtain such permission we may be forced to abandon the offering. As a result, we face uncertainty about future actions by the PRC government that could significantly affect our ability to offer or continue to offer securities to investors and cause the value of our Class A Common Shares to significantly decline or be worthless.

We may be subject to PRC laws relating to the use, sharing, retention, security and transfer of confidential and private information, such as personal information and other data. These laws continue to develop, and the PRC government may adopt other rules and restrictions in the future. Non-compliance could result in penalties or other significant legal liabilities.

The Cybersecurity Law, which was adopted by the National People's Congress on November 7, 2016 and came into force on June 1, 2017, and the Cybersecurity Review Measures, or the "Review Measures," which were promulgated on April 13, 2020, amended on December 28, 2021 and will become effective on February 15, 2022, provide that personal information and important data collected and generated by a critical information infrastructure operator in the course of its operations in China must be stored in China, and if a critical information infrastructure operator purchases internet products and services that affect or may affect national security, it should be subject to cybersecurity review by the CAC. In addition, a cybersecurity review is required where critical information infrastructure operators, or the "CIIOs," purchase network-related products and services, which products and services affect or may affect national security. Due to the lack of further interpretations, the exact scope of what constitute a "CIIO" remains unclear. Further, the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws. In addition, Review Measures stipulates that an online platform operator holding more than one million users/users' individual information shall be subject to cybersecurity review before listing abroad. Cybersecurity Review Measures does not provide a definition of "online platform operator", therefore, we cannot assure you that we will not be deemed as an "online platform operator". As of the date of this prospectus, we have not received any notice from any authorities identifying us as a CIIO or requiring us to undertake a cybersecurity review by the CAC. Further, as of the date of this prospectus, we have not been subject to any penalties, fines, suspensions, investigations from any competent authorities for violation of the regulations or policies that have been issued by the CAC. On June 10, 2021, the Standing Committee of the National People's Congress promulgated the Data Security Law which took effect on September 1, 2021. The Data Security Law requires that data shall not be collected by theft or other illegal means, and it also provides that a data classification and hierarchical protection system shall be established. The data classification and hierarchical protection system protects data according to its importance in economic and social development, and the damages it may cause to national security, public interests, or the legitimate rights and interests of individuals and organizations if the data is falsified, damaged, disclosed, illegally obtained or illegally used, which protection system is expected to be built by the state for data security in the near future. On November 14, 2021, CAC published the Regulations on the Network Data Security Management (Draft for Comments), or the Data Security Management Regulations Draft to solicit public opinion and comments. Under the Data Security Management Regulations Draft, which provides that an overseas initial public offering to be conducted by a data processor processing the personal information of more than one million individuals shall apply for a cybersecurity review. Data processor means an individual or organization that independently makes decisions on the purpose and manner of processing in data processing activities, and data processing activities refers to activities such as the collection, retention, use, processing, transmission, provision, disclosure, or deletion of data. We may be deemed as a data processor under the Data Security Management Regulations Draft. However, the Data Security Management Regulations Draft has not been formally adopted. It is uncertain when the final regulation will be issued and take effect, how it will be enacted, interpreted or implemented, and whether it will affect us. There remains uncertainty as to how the Review Measures and the Data Security Management Regulations Draft will be interpreted or implemented and whether the PRC regulatory agencies, including the CAC, may adopt new laws, regulations, rules, or detailed implementation and interpretation related to the Review Measures and the Data Security Regulations Draft. If any such new laws, regulations, rules, or implementation and interpretation come into effect, we expect to take all reasonable measures and actions to comply. We cannot assure you that PRC regulatory agencies, including the CAC, would take the same view as we do, and there is no assurance that we can fully or timely comply with such laws should they be deemed applicable to our operations. Any cybersecurity review could also result in negative publicity with respect to our Company and diversion of our managerial and financial resources. There is no certainty as to how such review or prescribed actions would impact our operations and we cannot guarantee that any clearance can be obtained or any actions that may be required for our listing on the Nasdaq capital market and the offering as well can be taken in a timely manner, or at all.

In addition, according to the Personal Information Protection Law, where the purpose of the activity is to provide a product or service to that natural person located within China, such activity shall comply with the Personal Information Protection Law. Further, the Data Security Law provides that where any data handling activity carried out outside of the territory of China harms the national security, public interests, or the legitimate rights and interests of citizens or organizations of China, legal liability shall be investigated in accordance with such law. However, the Personal Information Protection Law and the Data Security Law are relatively new, there remains uncertainty as to how the laws will be interpreted or implemented and whether the PRC regulatory agencies, including the CAC, may adopt new laws, regulations, rules, or detailed implementation and interpretation related to the two laws.

The regulatory requirements with respect to cybersecurity and data privacy are constantly evolving and can be subject to varying interpretations, and significant changes, resulting in uncertainties about the scope of our responsibilities in that regard. Failure to comply with the cybersecurity and data privacy requirements in a timely manner, or at all, may subject us to government enforcement actions and investigations, fines, penalties, suspension, or disruption of our operations, among other things.

We may be liable for improper use or appropriation of personal information provided by our customers.

Our business can potentially involve collecting and retaining certain internal and customer data. We also maintain information about various aspects of our operations as well as regarding our employees. The integrity and protection of our customer, employee and company data is critical to our business. Our customers and employees expect that we will adequately protect their personal information. We are required by applicable laws to keep strictly confidential the personal information that we collect, and to take adequate security measures to safeguard such information.

The PRC Criminal Law, as amended by its Amendment 7 (effective on February 28, 2009) and Amendment 9 (effective on November 1, 2015), prohibits institutions, companies, and their employees from selling or otherwise illegally disclosing a citizen's personal information obtained in performing duties or providing services or obtaining such information through theft or other illegal ways. On November 7, 2016, the SCNPC issued the Cyber Security Law of the PRC, or Cyber Security Law, which became effective on June 1, 2017. Pursuant to the Cyber Security Law, network operators must not, without users' consent, collect their personal information, and may only collect users' personal information necessary to provide their services. Providers are also obliged to provide security maintenance for their products and services and shall comply with provisions regarding the protection of personal information as stipulated under the relevant laws and regulations.

The Civil Code of the PRC (issued by the PRC National People's Congress on May 28, 2020 and effective from January 1, 2021) provides legal basis for privacy and personal information infringement claims under the Chinese civil laws. PRC regulators, including the CAC, the Ministry of Industry and Information Technology, or MIIT, and the Ministry of Public Security, have been increasingly focused on regulation in data security and data protection.

The PRC regulatory requirements regarding cybersecurity are evolving. For instance, various regulatory bodies in China, including the CAC, the Ministry of Public Security and the State Administration for Market Regulation, or the SAMR (formerly known as State Administration for Industry and Commerce, or the SAIC), have enforced data privacy and protection laws and regulations with varying and evolving standards and interpretations. In April 2020, the Chinese government promulgated Cybersecurity Review Measures, which came into effect on June 1, 2020, was amended on December 28, 2021, and will become effective on February 15, 2022. According to the Cybersecurity Review Measures, (i) operators of critical information infrastructure must pass a cybersecurity review when purchasing network products and services which do or may affect national security; (ii) online platform operators who are engaged in data processing are also subject to the regulatory scope; (iii) the CSRC is included as one of the regulatory authorities for purposes of jointly establishing the state cybersecurity review working mechanism; (iv) online platform operators holding more than one million users/users' individual information and seeking a listing outside China shall file for cybersecurity review; (v) the risks of core data, material data or large amounts of personal information being stolen, leaked, destroyed, damaged, illegally used or illegally transmitted to overseas parties and the risks of critical information infrastructure, core data, material data or large amounts of personal information being influenced, controlled or used maliciously shall be collectively taken into consideration during the cybersecurity review process.

Certain internet platforms in China have been reportedly subject to heightened regulatory scrutiny in relation to cybersecurity matters. As of the date of this prospectus, we have not been informed by any PRC governmental authority of any requirement that we file for a cybersecurity review. However, if we are deemed to be a critical information infrastructure operator or a company that is engaged in data processing and holds personal information of more than one million users, we could be subject to PRC cybersecurity review.

As of the date hereof, we are of the view that we are in compliance with the applicable PRC laws and regulations governing the data privacy and personal information in all material respects, including the data privacy and personal information requirements of the Cyberspace Administration of China, and we have not received any complaints from any third party, or been investigated or punished by any PRC competent authority in relation to data privacy and personal information protection. However, as there remains significant uncertainty in the interpretation and enforcement of relevant PRC cybersecurity laws and regulations, we could be subject to cybersecurity review, and if so, we may not be able to pass such review in relation to this offering. In addition, we could become subject to enhanced cybersecurity review or investigations launched by PRC regulators in the future. Any failure or delay in the completion of the cybersecurity review procedures or any other non-compliance with the related laws and regulations may result in fines or other penalties, including suspension of business, website closure, removal of our app from the relevant app stores, and revocation of prerequisite licenses, as well as reputational damage or legal proceedings or actions against us, which may have material adverse effect on our business, financial condition or results of operations.

On June 10, 2021, the SCNPC promulgated the PRC Data Security Law, which took effect in September 2021. The PRC Data Security Law imposes data security and privacy obligations on entities and individuals carrying out data activities, and introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, and the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, illegally acquired or used. The PRC Data Security Law also provides for a national security review procedure for data activities that may affect national security and imposes export restrictions on certain data an information.

As uncertainties remain regarding the interpretation and implementation of these laws and regulations, we cannot assure you that we will comply with such regulations in all respects and we may be ordered to rectify or terminate any actions that are deemed illegal by regulatory authorities. We may also become subject to fines and/or other sanctions which may have material adverse effect on our business, operations and financial condition.

While we take various measures to comply with all applicable data privacy and protection laws and regulations, our current security measures and those of our third-party service providers may not always be adequate for the protection of our customer, employee or company data. We may be a target for computer hackers, foreign governments or cyber terrorists in the future.

Unauthorized access to our proprietary internal and customer data may be obtained through break-ins, sabotage, breach of our secure network by an unauthorized party, computer viruses, computer denial-of-service attacks, employee theft or misuse, breach of the security of the networks of our third-party service providers, or other misconduct. Because the techniques used by computer programmers who may attempt to penetrate and sabotage our proprietary internal and customer data change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques.

Unauthorized access to our proprietary internal and customer data may also be obtained through inadequate use of security controls. Any of such incidents may harm our reputation and adversely affect our business and results of operations. In addition, we may be subject to negative publicity about our security and privacy policies, systems, or measurements. Any failure to prevent or mitigate security breaches, cyber-attacks or other unauthorized access to our systems or disclosure of our customers' data, including their personal information, could result in loss or misuse of such data, interruptions to our service system, diminished customer experience, loss of customer confidence and trust, impairment of our technology infrastructure, and harm our reputation and business, resulting in significant legal and financial exposure and potential lawsuits.

We must remit the offering proceeds to China before they may be used to benefit our business in China, the process of which may be time-consuming, and we cannot assure that we can finish all necessary governmental registration processes in a timely manner.

The proceeds of any offering of our securities may be sent back to mainland China, and the process for sending such proceeds back to mainland China may be time-consuming after the closing of the offering. We may be unable to use these proceeds to grow our business until our Mainland China Subsidiaries receive such proceeds in mainland China. Any transfer of funds by us to our Mainland China Subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration or filing with relevant governmental authorities in China. Any foreign loans procured by our Mainland China Subsidiaries is required to be registered with China's State Administration of Foreign Exchange ("SAFE") or its local branches or satisfy relevant requirements, and our Mainland China Subsidiaries may not procure loans which exceed the difference between their respective total project investment amount and registered capital or 2 times (which may be varied year by year due to the change of PRC's national macro-control policy) of the net worth of our Mainland China Subsidiary. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our Mainland China Subsidiaries are subject to the approval of or filing with State Administration for Market Regulation in its local branches, the Ministry of Commerce in its local branches and registration with a local bank authorized by SAFE.

To remit the proceeds of the offering, we must take the steps legally required under the PRC laws, for example, we will open a special foreign exchange account for capital account transactions, remit the offering proceeds into such special foreign exchange account and apply for settlement of the foreign exchange. The timing of the process is difficult to estimate because the efficiencies of different SAFE branches can vary materially.

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

U.S. regulators' ability to conduct investigations or enforce rules in China is limited.

The majority of our operations conducted outside of the U.S. As a result, it may not be possible for the U.S. regulators to conduct investigations or inspections, or to effect service of process within the U.S. or elsewhere outside China on us, our subsidiaries, officers, directors and shareholders, and others, including with respect to matters arising under U.S. federal or state securities laws. China does not have treaties providing for reciprocal recognition and enforcement of judgments of courts with the U.S. and many other countries. As a result, recognition and enforcement in China of these judgments in relation to any matter, including U.S. securities laws and the laws of the Cayman Islands, may be difficult or impossible.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in mainland China against us or Hong Kong or other foreign laws, and the ability of U.S. authorities to bring actions in mainland China may also be limited.

We are an exempted company with limited liability incorporated under the laws of the British Virgin Island, we conduct a significant portion of our operations in mainland China and the majority of our assets are located in mainland China. In addition, all of our directors, officers or senior management other than Yunhao Chen, are located in mainland China. As a result, it may be more difficult for our Shareholders to enforce liabilities and enforce judgments on those individuals. Our PRC legal counsel, Guangdong Jiamao Law Firm, has advised us that mainland China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in mainland China of judgments of a court in any of these jurisdictions outside mainland China in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

On July 14, 2006, Hong Kong and the mainland China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the PRC and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned, or the 2006 Arrangement, pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in mainland China. Similarly, a party with a final judgment rendered by a court in mainland China requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a Hong Kong court or a court in mainland China is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in mainland China if the parties in dispute have not agreed to enter into a choice of court agreement in writing. The 2006 Arrangement became effective on August 1, 2008.

Subsequently on January 18, 2019, Hong Kong and mainland China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters between the Courts of the Mainland and of the Hong Kong Special Administrative Region, or the Arrangement, pursuant to which, among other things, the scope of application was widened to cover both monetary and non-monetary judgments in most civil and commercial matters, including effective judgments on civil compensation in criminal cases. In addition, the requirement of a choice of court agreement in writing has been removed. It is no longer necessary for parties to agree to enter into a choice of court agreement in writing, as long as it can be shown that there is a connection between the dispute and the requesting place, such as place of the defendant's residence, place of the defendant's business or place of performance of the contract or tort. The 2019 Arrangement shall apply to judgments in civil and commercial matters made on or after its effective date by the courts of both sides. The 2006 Arrangement shall be terminated on the same day when the 2019 Arrangement comes into effect. If a "written choice of court agreement" has been signed by parties according to the 2006 Arrangement prior to the effective date of the 2019 Arrangement, the 2006 Arrangement shall still apply. Although the 2019 Arrangement has been signed, its effective date has yet to be announced. Therefore, there are still uncertainties about the outcomes and effectiveness of enforcement or recognition of judgments under the 2019 Arrangement.

Furthermore, shareholder claims that are common in the U.S., 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 U.S. 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, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of mainland China. Accordingly, without the consent of the competent PRC securities regulators and relevant authorities, no organization or individual may provide the documents and materials relating to securities business activities to overseas parties.

We face uncertainty regarding the PRC tax reporting obligations and consequences for certain indirect transfers of the stock of our operating company.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued by the PRC State Administration of Taxation (“SAT”) on December 10, 2009, or Circular 698, where a foreign investor transfers the equity interests of a mainland China resident enterprise indirectly by way of the sale of equity interests of an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor should report such Indirect Transfer to the competent tax authority of mainland China PRC resident enterprise.

On February 3, 2015, the SAT issued the Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises, or SAT Bulletin 7. SAT Bulletin 7 supersedes the rules with respect to the Indirect Transfer under SAT Circular 698. SAT Bulletin 7 has introduced a new tax regime that is significantly different from the previous one under SAT Circular 698. SAT Bulletin 7 extends the mainland China’s tax jurisdiction to not only Indirect Transfers set forth under SAT Circular 698 but also transactions involving transfer of other taxable assets through offshore transfer of a foreign intermediate holding company. In addition, SAT Bulletin 7 provides clearer criteria than SAT Circular 698 for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. SAT Bulletin 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise, being the transferor, or the transferee, or the mainland China entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring mainland China tax. As a result, gains derived from such Indirect Transfer may be subject to mainland China enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a mainland China resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

On October 17, 2017, the SAT issued the Announcement of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source, or SAT Bulletin 37, which, among others, repealed the SAT Circular 698 on December 1, 2017. SAT Bulletin 37 further details and clarifies the tax withholding methods in respect of income of non-resident enterprises under SAT Circular 698. And certain rules stipulated in SAT Bulletin 7 are replaced by SAT Bulletin 37. Where the non-resident enterprise fails to declare the tax payable pursuant to Article 39 of the PRC Enterprise Income Tax Law, the tax authority may order it to pay the tax due within required time limits, and the non-resident enterprise shall declare and pay the tax payable within such time limits specified by the tax authority; however, if the non-resident enterprise voluntarily declares and pays the tax payable before the tax authority orders it to do so within required time limits, it shall be deemed that such enterprise has paid the tax in time.

We face uncertainties as to the reporting and other implications of certain past and future transactions where taxable assets in mainland China are involved, such as offshore restructuring. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions, under SAT Bulletin 7 and SAT Bulletin 37. For transfer of shares in our company by investors who are not resident enterprises in mainland China, our Mainland China Subsidiary may be requested to assist in the filing under SAT Bulletin 7 and SAT Bulletin 37. As a result, we may be required to expend valuable resources to comply with SAT Bulletin 7 and SAT Bulletin 37 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

PRC regulations relating to the establishment of offshore special purpose companies by mainland China residents may subject our mainland China resident shareholders to personal liability and limit our ability to acquire mainland China companies or to inject capital into our Mainland China Subsidiary, limit our Mainland China Subsidiary ability to distribute profits to us, or otherwise materially and adversely affect us.

In July 2014, SAFE has promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles, or SAFE Circular 37, to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents' Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles, or SAFE Circular 75, which ceased to be effective upon the promulgation of SAFE Circular 37. SAFE Circular 37 requires mainland China residents (including mainland China individuals and mainland China corporate entities as well as foreign individuals that are deemed as mainland China residents for foreign exchange administration purpose) to register with SAFE or its local branches in connection with their direct or indirect offshore investment activities. SAFE Circular 37 further requires amendment to the SAFE registrations in the event of any changes with respect to the basic information of the offshore special purpose vehicle, such as change of a mainland China individual shareholder, name and operation term, or any significant changes with respect to the offshore special purpose vehicle, such as increase or decrease of capital contribution, share transfer or exchange, or mergers or divisions. SAFE Circular 37 is applicable to our shareholders who are mainland China residents and may be applicable to any offshore acquisitions that we make in the future.

If any mainland China shareholder who makes direct or indirect investments in offshore special purpose vehicles, or SPV, fails to make the required registration or to update the previously filed registration, the subsidiaries of such SPV in China may be prohibited from distributing its profits or the proceeds from any capital reduction, share transfer or liquidation to the SPV, and the SPV may also be prohibited from making additional capital contribution into its subsidiary in China. On February 28, 2015, the SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, which became effective on June 1, 2015. Under SAFE Notice 13, applications for foreign exchange registration of inbound foreign direct investment and outbound overseas direct investment, including those required under the SAFE Circular 37, will be filed with qualified banks instead of the SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of the SAFE.

Of our current shareholders, five pre-IPO shareholders are individual Chinese residents to whom Notice 37 applies. The remaining pre-IPO shareholders are enterprises and Hong Kong residents, to whom Notice 37 does not apply; provided, however, that to the extent the shareholders of such enterprises are themselves Chinese residents, Notice 37 would apply to such individuals. As of the date hereof, none of the shareholders who are Chinese residents who hold such shares directly or through a Hong Kong enterprise has submitted registration under Notice 37. Although such individuals have promised to complete registration at the time they pay the company's capital contribution prior to completion of this offering, there can be no assurance such registration will be completed in a timely manner. We have requested mainland China residents whom we know hold direct or indirect interests in our company to make the necessary applications, filings and amendments as required under Notice 37 and other related rules. However, we cannot assure you that the registration will be duly and timely completed with the local SAFE branch or qualified banks. In addition, we may not be informed of the identities of all of the mainland China residents holding direct or indirect interests in our company. As a result, we cannot assure you that all of our shareholders or beneficial owners who are mainland China residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our Mainland China Subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

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

We may rely on dividends and other distributions on equity paid by our subsidiaries, including those based in the PRC, for our cash and financing requirements we may have, and any limitation on the ability of our Mainland China Subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.

As a holding company, we rely principally on dividends and other distributions on equity from our subsidiaries, including those based in China, for our cash requirements, including for services of any debt we may incur.

Our Mainland China Subsidiaries' ability to distribute dividends is based upon their distributable earnings. Current PRC regulations permit our Mainland China Subsidiaries to pay dividends to their respective shareholders only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our Mainland China Subsidiaries, as a Foreign Invested Enterprise, or FIE, is required to draw 10% of its after-tax profits each year, if any, to fund a common reserve, and it may stop drawing its after-tax profits if the aggregate balance of the common reserve has already accounted for over fifty percent (50%) of its registered capital. These reserves are not distributable as cash dividends. In addition, if our Mainland China Subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any limitation on the ability of our Mainland China Subsidiaries to distribute dividends or other payments to their respective shareholders could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends or otherwise fund and conduct our business. Currently, we have installed cash management policies or procedures in place that dictate how funds are transferred, under an umbrella of corporate policies and financial reporting policies. Even though our policies do not specifically address the limitations, as discussed above, on the amount of funds the Company can transfer out of China, if we decide to transfer cash out of China in the future, all relevant transfers will be conducted in compliance with such limitations. As of the date of this annual report, none of the Mainland China Subsidiaries has made any dividends or distributions to Dogness.

PRC regulation of loans and direct investment by offshore holding companies to mainland China entities may delay or prevent us from using the proceeds of this Offering to make loans or additional capital contributions to our Mainland China Subsidiary, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We are an offshore holding company conducting our operations in China through our subsidiaries established in China and Hong Kong. We may make loans to our Mainland China Subsidiaries subject to the approval from governmental authorities and limitation of amount, or we may make additional capital contributions to our wholly foreign-owned subsidiaries in China.

Any loans to our wholly foreign-owned subsidiaries in China, which are treated as foreign-invested enterprises under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our wholly foreign-owned subsidiaries in China to finance their activities must be registered with the local counterpart of SAFE. In addition, a foreign invested enterprise shall use its capital pursuant to the principle of authenticity and self-use within its business scope. The capital of a foreign invested enterprise shall not be used for the following purposes: (i) directly or indirectly used for payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities or investments other than banks' principal-secured products unless otherwise provided by relevant laws and regulations; (iii) the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license; and (iv) paying the expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, or SAFE Circular 19, effective June 2015, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, the Notice from the State Administration of Foreign Exchange on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses, and the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses. According to SAFE Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third party. Although SAFE Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within China, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or SAFE Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and SAFE Circular 16 could result in administrative penalties. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds from this offering, to our Mainland China Subsidiaries, which may adversely affect our liquidity and our ability to fund and expand our business in China. On October 23, 2019, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Further Promoting the Convenience of Cross-border Trade and Investment, or the SAFE Circular 28, which, among other things, allows all foreign-invested companies to use Renminbi converted from foreign currency-denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the negative list on foreign investment. However, since the SAFE Circular 28 is newly promulgated, it is unclear how SAFE and competent banks will carry this out in practice.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in mainland China entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to our Mainland China Subsidiaries or future capital contributions by us to our wholly foreign-owned subsidiaries in China. As a result, uncertainties exist as to our ability to provide prompt financial support to our Mainland China Subsidiaries when needed. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we expect to receive from any offering of our securities and to capitalize or otherwise fund our mainland China operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Governmental control of currency conversion may limit our ability to use our revenues effectively and the ability of our Mainland China Subsidiaries to obtain financing.

The PRC government imposes control on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive a majority of our revenues in Renminbi, which currently is not a freely convertible currency. Restrictions on currency conversion imposed by the PRC government may limit our ability to use revenues generated in Renminbi to fund our expenditures denominated in foreign currencies or our business activities outside China. Under China's existing foreign exchange regulations, Renminbi may be freely converted into foreign currency for payments relating to current account transactions, which include among other things dividend payments and payments for the import of goods and services, by complying with certain procedural requirements. Our Mainland China Subsidiaries are able to pay dividends in foreign currencies to us without prior approval from SAFE, by complying with certain procedural requirements. Our Mainland China Subsidiaries may also retain foreign currency in their respective current account bank accounts for use in payment of international current account transactions. However, we cannot assure you that the PRC government will not at its discretion take measures in the future to restrict access to foreign currencies for current account transactions.

Conversion of Renminbi into foreign currencies, and of foreign currencies into Renminbi, for payments relating to capital account transactions, which principally includes investments and loans, generally requires the approval of SAFE and other relevant PRC governmental authorities. Restrictions on the convertibility of the Renminbi for capital account transactions could affect the ability of our Mainland China Subsidiaries to make investments overseas or to obtain foreign currency through debt or equity financing, including by means of loans or capital contributions from us. We cannot assure you that the registration process will not delay or prevent our conversion of Renminbi for use outside of China.

We may be classified as a “resident enterprise” for mainland China enterprise income tax purposes; such classification could result in unfavorable tax consequences to us and our non-mainland China shareholders.

The Enterprise Income Tax Law provides that enterprises established outside of mainland China whose “de facto management bodies” are located within mainland China are considered mainland China tax resident enterprises and will generally be subject to the uniform 25% enterprise income tax rate on their global income. In 2009, the SAT issued the Circular of the State Administration of Taxation on Issues Concerning the Identification of Chinese-Controlled Overseas Registered Enterprises as Resident Enterprises in Accordance with the Actual Standards of Organizational Management, known as SAT Circular 82, which was partially amended by Announcement on Issues concerning the Determination of Resident Enterprises Based on the Standards of Actual Management Institutions issued by SAT on January 29, 2014, and further partially amended by Decision on Issuing the Lists of Invalid and Abolished Tax Departmental Rules and Taxation Normative Documents issued by SAT on December 29, 2017. SAT Circular 82, as amended, provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China, which include all of the following conditions: (i) the location where senior management members responsible for an enterprise’s daily operations discharge their duties; (ii) the location where financial and human resource decisions are made or approved by organizations or persons; (iii) the location where the major assets and corporate documents are kept; and (iv) the location where more than half (inclusive) of all directors with voting rights or senior management have their habitual residence. SAT Circular 82 further clarifies that the identification of the “de facto management body” must follow the substance over form principle. In addition, SAT issued SAT Bulletin 45 on July 27, 2011, effective from September 1, 2011 and partially amended on April 17, 2015, June 28, 2016, and June 15, 2018, respectively, providing more guidance on the implementation of SAT Circular 82. SAT Bulletin 45 clarifies matters including resident status determination, post-determination administration and competent tax authorities. Although both SAT Circular 82 and SAT Bulletin 45 only apply to offshore enterprises controlled by mainland China enterprises or mainland China enterprise groups, not those controlled by mainland China individuals or foreign individuals, the determining criteria set forth in SAT Circular 82 and SAT Bulletin 45 may reflect SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by mainland China enterprises or mainland China enterprise groups or by mainland China or foreign individuals.

Currently, there are no detailed rules or precedents governing the procedures and specific criteria for determining de facto management bodies which are applicable to our company or our overseas subsidiaries. We do not believe that Dogness meets all of the conditions required for mainland China resident enterprise. The Company is a company incorporated outside mainland China. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside mainland China. For the same reasons, we believe our other entities outside of mainland China are not mainland China resident enterprises either. 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 government will ultimately take a view that is consistent with ours.

However, if the PRC tax authorities determine that Dogness is a mainland China resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises. Such 10% tax rate could be reduced by applicable tax treaties or similar arrangements between China and the jurisdiction of our shareholders. For example, for shareholders eligible for the benefits of the tax treaty between China and Hong Kong, the tax rate is reduced to 5% for dividends if relevant conditions are met. In addition, non-resident enterprise shareholders may be subject to a 10% PRC tax on gains realized on the sale or other disposition of Common Shares, if such income is treated as sourced from within mainland China. It is unclear whether our non-mainland China individual shareholders would be subject to any PRC tax on dividends or gains obtained by such non-mainland China individual shareholders in the event we are determined to be a mainland China resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether non-mainland China shareholders of the Company would be able to claim the benefits of any tax treaties between their country of tax residence and mainland China in the event that the Company is treated as a mainland China resident enterprise.

Provided that our British Virgin Islands holding company, Dogness, is not deemed to be a mainland China resident enterprise, our shareholders who are not mainland China residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares. However, under Circular 7, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a mainland China resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee or the mainland China entity which directly owned such taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to mainland China enterprise income tax, and the transferee would be obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a mainland China resident enterprise. We and our non-mainland China resident investors may be at risk of being required to file a return and being taxed under Circular 7, and we may be required to expend valuable resources to comply with Bulletin 37, or to establish that we should not be taxed under Circular 7 and Bulletin 37.

In addition to the uncertainty in how the new 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 mainland China income tax on our dividends payable to our foreign shareholders, or if you are required to pay mainland China income tax on the transfer of our shares under the circumstances mentioned above, the value of your investment in our shares may be materially and adversely affected. These rates may be reduced by an applicable tax treaty, but it is unclear whether, if we are considered a mainland China 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. Any such tax may reduce the returns on your investment in our shares.

Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, replacing earlier rules promulgated in March 2007. Pursuant to these rules, mainland China citizens and non-mainland China citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be the Mainland China Subsidiary of such overseas-listed company, and complete certain other procedures. In addition, an overseas-entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our executive officers and other employees who are mainland China citizens or who have resided in mainland China for a continuous period of not less than one year and who are granted options or other awards under our equity incentive plan will be subject to these regulations when our company becomes an overseas listed company upon the completion of this offering. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our Mainland China Subsidiary and limit our Mainland China Subsidiary's ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law. .”

In addition, SAT has issued certain circulars concerning employee share options and restricted shares. Under these circulars, our employees working in China who exercise share options or are granted restricted shares will be subject to mainland China individual income tax. Our Mainland China Subsidiaries have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC government authorities.

Failure to make adequate contributions to various mandatory social security plans as required by PRC regulations may subject us to penalties.

Under the PRC Social Insurance Law and the Administrative Measures on Housing fund, We are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. If the local governments deem our contribution to be not sufficient, we may be subject to late contribution fees or fines in relation to any underpaid employee benefits, our financial condition and results of operations may be adversely affected.

Currently, certain of our affiliated entities are making contributions to the plans based on the basic salary of our employees which may not be adequate in strict compliance with the relevant regulations. As of the date of this annual report, the accumulated impact in this regard was immaterial to our financial condition and results of operations. We have not received any order or notice from the local authorities nor any claims or complaints from our current and former employees regarding our current practice in this regard. As the interpretation of implementation of labor-related laws and regulations are still involving, we cannot assure you that our practice in this regard will not be violate any labor-related laws and regulations regarding including those relating to the obligations to make social insurance payments and contribute to the housing funds and other welfare-oriented payments. If we deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees and subject to penalties, and our business, financial condition and results of operations will be adversely affected.

Enforcement of stricter labor laws and regulations may increase our labor costs as a result.

China's overall economy and the average wage have increased in recent years and are expected to continue to grow. The average wage level for our employees has also increased in recent years. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on these increased labor costs to our customers who pay for our services, our profitability and results of operations may be materially and adversely affected. The PRC Labor Contract Law and its implementing rules impose requirements concerning contracts entered into between an employer and its employees and establishes time limits for probationary periods and for how long an employee can be placed in a fixed-term labor contract. We cannot assure you that our employment policies and practices do not, or will not, violate the Labor Contract Law or its implementing rules and that we will not be subject to related penalties, fines or legal fees. If we are subject to large penalties or fees related to the Labor Contract Law or its implementing rules, our business, financial condition and results of operations may be materially and adversely affected. In addition, according to the Labor Contract Law and its implementing rules, if we intend to enforce the non-compete provision with an employee in a labor contract or non-competition agreement, we have to compensate the employee on a monthly basis during the term of the restriction period after the termination or ending of the labor contract, which may cause extra expenses to us. Furthermore, the Labor Contract Law and its implementation rules require certain terminations to be based upon seniority rather than merit, which significantly affects the cost of reducing workforce for employers. In the event we decide to significantly change or decrease our workforce in mainland China, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, thus our results of operations could be adversely affected.

If the chops of our Mainland China Subsidiaries are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised.

In China, a company chop or seal serves as the legal representation of the company towards third parties even when unaccompanied by a signature. Each legally registered company in China is required to maintain a company chop, which must be registered with the local Public Security Bureau. In addition to this mandatory company chop, companies may have several other chops which can be used for specific purposes. The chops of our Mainland China Subsidiaries are generally held securely by personnel designated or approved by us in accordance with our internal control procedures. To the extent those chops are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised and those corporate entities may be bound to abide by the terms of any documents so chopped, even if they were chopped by an individual who lacked the requisite power and authority to do so. In addition, if the chops are misused by unauthorized persons, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations.

Item 4. Information on the Company

A. History and Development of the Company

Dogness (International) Corporation (“Dogness”) was incorporated as a British Virgin Islands company limited by shares under the BVI Business Companies Act (As Revised), on July 11, 2016. Dogness has an indefinite term. Dogness was established to operate principally as a holding company. Dogness and its subsidiaries (collectively the “Company”) are principally engaged in the design and manufacture of pet products, including leashes and smart products, and lanyards in the China. Most products are exported to the U.S. and Europe and sold to pet stores, including major pet store chains. The share capital of Dogness was US\$200,000, divided into 100,000,000 Common Shares of par value US\$0.002 each. In connection with the incorporation of Dogness, 15,000,000 Common Shares were issued to Silong Chen, Dogness’ founder and Chief Executive Officer.

Mr. Silong Chen, the founding shareholder of the Company, sold 5,931,000 of his Common Shares to a total of nine (9) unrelated private investors for aggregated proceeds of \$18,843,000, at a weighted average price of \$3.18 per share. After the sale, Mr. Silong Chen, the founding shareholder of the Company owned 60.46% equity interest of the Company.

After such Common Shares were sold, the shareholders unanimously agreed to establish two classes of Common Shares: (a) 90,931,000 authorized Class A Common shares, of which 16,844,631 Class A Common Shares are issued and outstanding, (b) 9,069,000 authorized Class B Common Shares, all of which are issued and outstanding. Mr. Chen, through Fine victory holding company Limited, is the only holder of Class B Common Shares.

Dogness (Hongkong) Pet’s Products Co., Limited (“HK Dogness”) was incorporated in Hong Kong on March 10, 2009 as a private company limited by shares. In a private company limited by shares — which is the most common way to establish a limited company in Hong Kong — the liability of members is limited by the articles of association to the amount unpaid on the shares held by such members. By comparison, in a company limited by guarantee, no share capital is required and member liability is limited by the articles of association to the amount that the members respectively undertake to contribute in the event the company is wound up; this type of limited company is more common for non-profit organizations.

HK Dogness was established to operate principally as a trading company. The share capital of HK Dogness is HK\$10,000, divided into 10,000 shares of HK\$1.00 each. In connection with the formation of HK Dogness, all 10,000 shares were issued to Silong Chen, Dogness’ founder and Chief Executive Officer. On August 15, 2016, Silong Chen transferred his shares in HK Dogness to a third party who held on Mr. Chen’s behalf in preparation for the subsequent transfer to Dogness; however, Silong Chen continued to control such shares. After such interim transfer, the shares in HK Dogness were transferred to Dogness on January 9, 2017.

Jiasheng Enterprise (Hongkong) Co., Limited (“HK Jiasheng”) was incorporated in Hong Kong on July 12, 2007 as a private company limited by shares. HK Jiasheng was established to operate principally as a trading company. The share capital of HK Jiasheng is HK\$10,000, divided into 10,000 shares of HK\$1.00 each. In connection with the formation of HK Jiasheng, all 10,000 shares were issued to Silong Chen, Dogness’ founder and Chief Executive Officer.

Dogness Intelligent Technology (Dongguan) Co., Ltd. (“Dongguan Dogness”) was incorporated in China on October 26, 2016. Dongguan Dogness was established to operate principally as a holding company. Dongguan Dogness has RMB 10 million in registered capital. In connection with the formation of Dongguan Dogness, Silong Chen, Dogness’ founder and Chief Executive Officer, became the sole shareholder of Dongguan Dogness.

Dongguan Jiasheng Enterprise Co., Ltd. (“Dongguan Jiasheng”) was incorporated in China on May 15, 2009. Dongguan Jiasheng was established to develop and manufacture pet leash and lanyard products. Dongguan Jiasheng has RMB 10,000,000 in registered capital. In connection with the formation of Dongguan Jiasheng, Silong Chen, Dogness’ founder and Chief Executive Officer, became the sole shareholder of Dongguan Dogness.

The reorganization of the legal structure was completed on January 9, 2017. The reorganization involved the incorporation of Dogness, a BVI holding company, and Dongguan Dogness, a mainland China holding company; and the transfer of HK Dogness, HK Jiasheng, and Dongguan Jiasheng (collectively, the “Transferred Entities”) from the Controlling Shareholder to Dogness and Dongguan Dogness. Prior to the reorganization, the Transferred Entities’ equity interests were 100% controlled by the Controlling Shareholder.

On November 24, 2016, the Controlling Shareholder transferred his 100% ownership interest in Dongguan Jiasheng to Dongguan Dogness, which is 100% owned by HK Dogness and considered a wholly foreign-owned entity (“WFOE”) in mainland China. On January 9, 2017, the Controlling Shareholder transferred his 100% equity interests in HK Dogness and HK Jiasheng to Dogness. After the reorganization, Dogness owns 100% equity interests of subsidiaries listed above.

In January 2018, the Company formed a Delaware limited liability company, Dogness Group LLC (“Dogness Group”), with its operation focusing primarily on product sales in the U.S. In February 2018, Dogness Overseas Ltd (“Dogness Overseas”) was established in the British Virgin Islands as a holding company, which owns all of the interests in Dogness Group. All of the equity of Dogness Overseas is owned by Dogness (International) Corporation.

On March 16, 2018, the Dongguan Dogness entered into a share purchase agreement to acquire 100% of the equity interests in Zhangzhou Meijia Metal Product Co., Ltd (“Meijia”) from its original shareholder, Long Kai (Shenzhen) Industrial Co., Ltd (“Longkai”), for a total cash consideration of approximately \$11.1 million (or RMB 71.0 million). After the acquisition, Meijia became Dongguan Dogness’ wholly-owned subsidiary. The acquisition of Meijia enabled the Company to build its own facility instead of leasing manufacturing facilities and to expand its production capacity sustainably to meet increased customer demand. Meijia plant has reached its fully production capacity as of June 30, 2021.

On July 6, 2018, a new entity called Dogness Intelligence Technology Co., Ltd. (“Intelligence Guangzhou”), was incorporated under PRC laws in Guangzhou City, Guangdong Province, China with a total registered capital of RMB 80 million (approximately \$11.0 million). One of the Company’s subsidiaries, Dongguan Jiasheng, owns 58% of Intelligence. As of the date of this report, Dongguan Jiasheng has not yet made the payment of the registered capital. Intelligence Guangzhou will be the research and manufacturing facility for the Company’s fast growing intelligent pet products. On August 10, 2022, the Board approved to sell the Company’s 58% ownership interest in Dogness Intelligence Technology Co., Ltd. to a third party for a price of \$0.

Dogness Pet Culture (Dongguan) Co., Ltd. (“Dogness Culture”) was incorporated on December 14, 2018 with registered capital of RMB 10 million (approximately \$1.5 million). The capital was not paid and there were no active business operations. On January 15, 2020, the Company’s subsidiary, Dongguan Dogness, entered into an agreement with one of the original shareholders of Dogness Culture, who is related to Mr. Silong Chen, the Chief Executive Officer, to acquire 51.2% ownership interest of Dogness Culture for a nominal fee. Dongguan Dogness thereafter contributed cash consideration of RMB 5.12 million (approximately \$0.79 million) on April 16, 2020 along with other shareholders’ capital contributions of RMB 4.88 million (approximately \$0.67 million). Dogness Culture is focusing on developing and expanding pet food market in China in the near future. On July 19, 2023, the Board approved the liquidation, dissolution, and termination of Dogness culture following the signing of a termination agreement among Dogness’s Culture’s shareholders on May 8, 2023. As of the date of this annual report, Dogness Culture is in the process of being liquidated.

On February 5, 2019, in order to expand into the Japanese market and expedite the development of new smart pet products, Dogness Japan Co. Ltd. (“Dogness Japan”) was incorporated in Japan. The Company invested \$142,000 for 51% ownership interest in Dogness Japan, with the remaining 49% owned by an unrelated individual. Due to the negative impact of COVID-19 and because no material revenue was generated since its inception, on November 28, 2020, the Board approved to the sale of the Company’s 51% ownership interest to the remaining shareholder of Dogness Japan.

At the completion of these transactions, (i) Dogness holds 100% of the equity of each of Dogness Overseas, HK Jiasheng and HK Dogness; (ii) Dogness Overseas owns 100% of the equity of Dogness Group; (iii) HK Dogness holds 100% of the equity of Dongguan Dogness; (iv) Dongguan Dogness holds 100% of the equity of Dongguan Jiasheng, Meijia and 51.2% of the equity of Dogness Culture; and (v) Dongguan Jiasheng owns 58% of the equity of Intelligence and. By virtue of these ownership relationships, Dogness is the parent, directly or indirectly, of each of Meijia, HK Jiasheng, HK Dogness, Dongguan Dogness, Dogness Group, and Dongguan Jiasheng, and such entities’ financial results are consolidated with those of Dogness; provided that only 58% of the equity of Intelligence Guangzhou is so consolidated.

B. Business Overview

Overview

Technology can bring pets and their caregivers closer together. At Dogness we combine our research and development expertise with customer feedback to make products that improve pets' lives. We create and manufacture fun, useful and high-quality products for everyone to experience. We believe that high technology pet products must be accessible and reliable to capture pet lovers' imagination and to enhance their pets' lives.

Dogness has been making the highest quality collars, harnesses, and traditional and retractable leashes since 2003, featuring stylish design and rugged engineering. Beginning with smart collars and harnesses in 2016, based on the belief that internet-connected products could improve the lives of pets and their caregivers, Dogness developed a suite of smart products, moving past these first products into smart feeders, fountains, treat dispensers and robots to interact with pets.

Dogness focuses on connected pet care, to link pets and pet caregivers and ultimately to integrate the "Smart Pet Ecosystem" into a single cohesive platform that integrates smart technology into pets' lives. The Smart Pet Ecosystem has four major areas: smart pet technology, pet care, leashes and collars, and pet health and wellness.

Smart Pet Technology

Through a single platform, the Dogness mobile app, the Company's smart products allow pet owners to remotely see, hear, speak, feed, play, and interact with their pets in different ways. We accomplish all of this with a tool the owner likely already has, a smart phone. The Dogness app is available for both Android and iOS and communicates with the smart product anywhere the phone and smart product both have Wi-Fi or cellular service. If your dog will listen to you from across the room, you can tell her to roll over from around the world.

Dogness Smart Wearables: Our smart wearable collars and harnesses feature integrated electronics, which allows us to pair high quality collars with a lightweight smart component and LED lights. We have focused on the important details for dog owners, allowing owners to locate their pets, direct their pets' movements, communicate with their dogs, provide tailored instantaneous feedback to problem barking and keep track of exercise and other biodata.

Dogness Smart iPet Robot: Pet owners will be able to see their pets through a camera, hear their pets through a built-in microphone, interact with their pets by feeding them treats, and play with their pets through an interactive laser pointer. Pet owners have full control over the 360-degree mobility of the robot through the Dogness app and can securely take and save pictures and videos of their dogs.

Dogness Mini Treat Robot: Space-conscious pet owners can see their pets through a stationary tilting camera that securely records photo and video, hear their pets through a built-in microphone, interact with their pets by feeding them treats, and play with them through an interactive laser pointer.

Dogness Smart CAM Feeder: Pet owners can now ensure that their pets are well-fed and on-schedule. Able to hold around 6.5 pounds of dry food, the smart feeder helps pet owners ensure the health of their pets, even when away from home. Pet owners can see their pets' eating habits night and day through a built-in camera with night vision and call their pets to the feeder through a voice recording that can be programmed to be played at meal times.

Dogness Wide-view CAM Feeder: In addition to the original Smart CAM Feeder, this 2022 version of CAM feeder holds around 4 pounds of dry food. The camera is updated and wide-angled so that the pet owner can see not only their pets and the room, but the bowl and the food in it.

Dogness Cube App Feeder and Programmable Feeder: This 2022 version of the App Feeder and Programmable Feeder holds about 4 pounds of dry food. The food container is semi-transparent which enables the pet owners to check on the food level without opening the container.

Dogness Smart Fountain: The smart fountain ensures that pets stay hydrated with a source of clean filtered water from a patented filtering technology. Additional features include an oxygenating, free-falling, recirculating water stream for optimal freshness, the ability to increase or decrease the flow of water, a replaceable carbon water filter and a nano filter to maintain water freshness, a submersible pump for quiet operation, dishwasher-safe material, and an easily assembled and disassembled design.

Dogness App Fountain: This brand new App fountain is newly developed with App controlling the water level, UV sterilization, lights and

Dogness Wireless Sensor Fountain: This brand new wireless fountain is USB rechargeable and operates with sensors. It does not use the long cable that's common on traditional fountains and makes the fountain portable.

Dogness Smart Fountain Mini and Smart Fountain Plus: In addition to our Smart Fountain, we have developed the Smart Fountain Mini (1L capacity) and Smart Fountain Plus (3.2L capacity) for additional options for pet owners. The Smart Fountain Mini enables our products to be used in smaller spaces, while the Smart Fountain Plus ensures an even larger reservoir for pets. Both fountains maintain a constant flow of water, so pets can drink water that is as fresh as from the faucet. The Smart Fountains have a three-stage filtering system, which ensures the water flowing out is filtered, fresh and clean.

Dogness Smart CAM Treater: Allows pet owners to see their pets night and day through a 160-degree full HD camera with night vision, hear their pets through a built-in microphone, interact with their pets by speaking to them through a built-in speaker, and play with their pets by tossing them treats.

Dogness App Feeder and App Feeder Mini: Pet owners can ensure that their pets are well-fed and on-schedule. Able to hold around 6.5 pounds of dry food, the App feeder enables pet owners to set up their pet's feeding schedule from the App via their mobile phone, even when away from home. App Feeder Mini holds around 2.0 pounds of dry food and is suitable for cats and small dogs.

Dogness Smart Vacuumed Pet Food Storage Containers: Dogness proprietary vacuum food storage container was designed to use an intelligent, constant pressure vacuum locking method, which significantly upgrades and modernizes conventional food storage, by completely isolating mildew and moisture in the air, keeping pet food fresh and crispy for longer, and bringing a higher quality to pets' healthy lives.

Dogness C6 GPS Tracker "Discover": Pet owners can have peace of mind knowing where their pets are anytime when they open the GPS Tracker App on their mobile phones. The Trackers are 4G compatible and allow the owners to keep track of the location of their pets. They can also set up virtual fences and the GPS Tracker App will alert the pet parents if their pets are beyond the fences. The Trackers also monitor and provide the pets' activity level statistics.

Dogness C5 and C5 mini Trackers: These smaller versions of the trackers have similar features of C6 but uses NB instead of 4G. It features longer battery time with smaller size and weight.

Pet Care

Our pet care products currently focus on high quality pet shampoos. We launched these shampoo products in August 2018.

We have two lines of shampoos, which are focused on and tailored to Chinese online and offline consumption. Our One on One Service line is focused on consumer purchasers and consists of dog and cat shampoo products that feature natural plant and amino acid composition. In addition to universal-purpose products, we have also developed seven breed-tailored shampoo products for golden retrievers, poodles, huskies, bulldogs, border collies and corgis. Our Professional Bathing & Spa line is focused on professional purchasers, like dog and cat groomers. These products consist of bathing products, hair conditioners and essential oil products.

Leashes and Collars

Traditional Product Lines: We produce collars, harnesses and leashes in seven main series (Classic, Elegance, Luxury, LED, Holiday, Special Function, and Cat series). Given the choices available to customers, we currently manufacture between 500 and 600 traditional products and can add additional options to meet customer preferences. Our traditional product lines use leather, nylon, Teflon-coated fabrics and other materials to suit consumer preferences. Not only do we produce these products; we also design fabric patterns and invent improved components such as a comfort curved buckle for collars and locking closing mechanism for leashes.

Retractable Leashes: In addition to our newest smart products, we have devoted significant effort to designing and manufacturing some of the finest retractable leashes available. Retractable leashes balance freedom for the dog with control for the owner. If used well, a retractable leash promotes good communication between the two, as the dog has exactly as much room to roam as the owner permits, and this amount can be adjusted to suit the environment and circumstances. Dogness also offers an updated retractable leash to enhance the pet walking experience. The new leash allows pet owners to attach Dogness accessories to their retractable leashes, which currently include an LED light for better visibility in low light settings; a convenience box to store items such as doggie bags, treats, or keys; and a Bluetooth speaker to listen to music or answer calls.

Other Products: In addition to collars, leashes and harnesses, we also produce lanyards for use by humans and ornaments that attach to collars. As to the lanyards, we produce such lanyards using our fabric weaving machines. Because we have our production in-house, we can design lanyards that match a customer's need, in terms of color, size, quantity and pattern. Our hanging ornament series uses high-quality electroplating techniques to create fashionable accents for pet collars. We make a variety of patterns in bright and vibrant colors, as well as custom bells for cat collars.

Upcoming New Products

Dogness expects to launch additional products, including convenient indoor pet toilets, air purifiers, and other products.

Pet Health and Wellness

One of our new research areas is pet-focused health and wellness products. One of our subsidiaries is currently serving as a distributor of a few premium pet food brands from overseas. While we do not currently offer our own branded products for sale in this category, we are currently developing supplements and nutrition products in consultation with veterinarians and pharmacists and anticipate introducing these products in the future.

Operations

Dogness has marketing and sales networks all over the world and has businesses in Dallas, Dongguan, Hong Kong and Zhangzhou. Senior management, R&D and production, marketing, customer service and finance operate from Dogness' headquarters in Dongguan, Guangdong Province, which also serves as the manufacturing base for smart products and dog leashes. Dogness Group LLC in Dallas, Texas, USA serves as the sales and service center for all international markets. The company's factory in Zhangzhou, Fujian serves as a material production base, responsible for sample dyeing, ribbon dyeing and electroplating. One of Dogness' competitive advantages comes from integrating the whole industrial chain, including retraction ropes, textiles, printing and dyeing, mold development, and hardware and plastics. In addition, Dogness' subsidiary in the United States has R&D and design centers for pet smart products, forming a complete supply chain system with manufacturing bases in China. We benefit from vertically integrated manufacturing operations, which allow us to design, machine and assemble the vast majority of our products in house, so we can easily incorporate improvements in design.

Market Background

Our company's primary market is mainland China, with approximately 36.0%, 46.3%, and 56.3% of our products being sold in China in fiscal 2023, 2022, and 2021, respectively.

In terms of export sales, our company's primary market is the United States, with approximately 35.4%, 29.6%, and 24.7% of our products being sold in America in fiscal 2023, 2022, and 2021, respectively. The United States has one of the highest pet ownership rates in the world. According to the 2023-2024 APPA National Pet Owners Survey, 66% of U.S. households own a pet, which equates to 86.9 million households.¹

Pet owners in the United States have increasingly seen their pets as extended members of the family. Accordingly, spending on pets has increased steadily over the last decade. According to the APPA, in 2022, \$136.8 billion was spent on pets in the U.S.

¹ American Pet Products Association, Pet Industry Market Size, Trends & Ownership Statistics.

https://www.americanpetproducts.org/press_industrytrends.asp

² American Pet Products Association, Pet Industry Market Size, Trends & Ownership Statistics.

https://www.americanpetproducts.org/press_industrytrends.asp

We sell the majority of our products through specialty pet store chain retailers and mass market retailers. Although there are more than 13,000 pet stores in the United States, the vast majority of pet stores are small operations, but a significant proportion of sales come from the top few specialty retail chains, Petco and Pet Valu. Mass retailers like Target and Wal-Mart also play a key role in pet supply sales, including in particular staples like pet food. These retailers have courted pet owners with the offer of one-stop-shopping, as compared with making a special trip to a pet store.

Finally, pet owners have increasingly turned to internet sites to purchase pet supplies. In addition to selling our products to many of the largest specialty and mass retailers in the U.S., we are exploring opportunities to drive online sales as well.

Competitive Strengths

We believe we have the following competitive strengths. Some of our competitors may have these or other competitive strengths.

- *Advanced technology.* We have developed and made use of 201 patents in producing premium pet products.
- *Strong research and development.* We have leveraged our cooperation with and/or investments in Dogness Network Technology Co., Ltd (“Dogness Network”), Nanjing Rootaya Intelligence Technology Co., Ltd. (“Nanjing Rootaya”), Linsun Smart Technology Co., Ltd (“Linsun”) and our own in-house research and development efforts to design high tech pet products for our customers. Dogness Network, in which we have a 10% ownership interest, develops the smartphone apps that power our connected products, including our feeders, treaters, robots and others. Nanjing Rootayahas designed some of our pet toys and innovative water and food bowl. Linsun, in which we have a 13% ownership interest, helped create our smart feeders and treaters. Our subsidiary Dongguan Jiasheng is responsible for the technology underlying our other smart products and innovation and improvement in traditional products.

- *Vertically integrated production.* We are increasingly manufacturing as much of our products internally and reducing reliance on third party vendors. This allows us to control costs and ensure quality.
- *Economies of scale.* We are pleased to provide products to a variety of customers and to fill large orders for a number of those customers. These large orders allow us to increase our efficiency, reduce costs and deliver high quality products quickly and to our customers' exacting demands.
- *Strong reputation in pet products industry.* Our customer list is filled with sophisticated, multinational purchasers of pet

Research and Development

Our R&D team has 15 dedicated employees who are focused on product development and design. Quality control has 8 employees and is an important aspect of the teams' work and ensuring quality at every stage of the process has been a key driver in maintaining and developing brand value for our Company.

Beginning in 2016, we have been researching and testing new, more ecologically friendly materials, which we hope to use in place of PVC in certain plastic applications.

As a result of these efforts, we became certified as a National High-Tech Enterprise by the State Intellectual Property Office in March 2015, and we renewed this certification in 2021. This certification entitles us to favorable tax rates of 15%, rather than the unified rate of 25% we would pay if we were not certified.

Our research and development expenses were \$931,078 in fiscal 2023, \$917,227 in fiscal 2022, and \$540,613 in fiscal 2021, representing 5.3%, 3.4 %, and 2.2%, of our total revenues for 2023, 2022, and 2021, respectively. We expect our R&D expenses to increase, as we continue to conduct research and development activities, especially seeking to increase the use of environmentally-friendly materials, and develop more new products to meet customer demands.

Intellectual Property

We use a combination of trade secret, copyright, trademark, patent and other rights to protect our intellectual property and our brand. As of September 25, 2023, we have completed registration of 135 patents with the China State Intellectual Property Office. In addition, we have registered 19 patents in Germany, 27 in Japan, 20 in the United States, 9 in Canada, 3 in Australia, and 8 in the European Union. As of the date of this report, we have successfully obtained 201 patents (including 135 in China), which includes 28 invention patents, 68 utility patents, and 125 appearance patents.

We have completed registration of 188 trademarks , with the Trademark Office of the State Administration for Industry & Commerce of the PRC. In addition, we have registered our key trademark for Dogness in Japan, Australia, Korea, Hong Kong, Taiwan and the United States. We have registered all of our patents and trademarks under Dongguan Jiasheng, Dongguan Dogness, Dogness Group, and HK Dogness. Our trademarks will expire at various dates through November 12, 2030.

Our key brands and logos are below:



Our website is located at www.dogness.com.

REGULATIONS

We are subject to a variety of PRC and foreign laws, rules and regulations across a number of aspects of our business. This section summarizes the principal PRC laws, rules and regulations relevant to our business and operations. Areas in which we are subject to laws, rules and regulations outside of the PRC include intellectual property, competition, taxation, anti-money laundering and anti-corruption. While there have been relatively few changes in applicable laws and regulations in recent years, law enforcement and regulatory agencies such as SAFE have been tightening up their implementation. Some of the practices that were not following governmental procedure or requirements, which many companies and individual persons had taken before but not been investigated or punished, are now under the close watch of agencies and even been punished.

Laws and Regulations in China Regarding Manufacturing, Producing, and Processing

Laws regulating pet products manufacturing, producing, and processing cover a broad range of subjects, particularly in the area of occupational safety and health. We must comply with all levels of laws and regulations relating to matters such as safe working conditions, manufacturing practices, environmental protection and discharging hazard control. Specifically, the major laws that apply to our Mainland China Subsidiaries are as follows:

- Company Law (amended in 2018), governing, among other matters, company registration, existence and business operation;
- Civil Code of the People's Republic of China (2021), governing business practices with all other market participants;
- Labor Contract Law (amended in 2012), governing the relationship between company as an employer and its employees;
- Product Quality Law (amended in 2018), governing the relationship between company as a products provider and consumers in the market.

We believe we are in compliance with these laws and related regulations in all material respects. So far, our business does not belong to special type of industry that requires operation license from government so that we do not need to get special license or approval for our business operation. However, unanticipated changes in existing regulatory requirements or adoption of new requirements may force us to incur more cost to maintain the licenses and failure to do so could materially adversely affect our business, financial condition and results of operations.

Regulation on Product Liability

China's Product Quality Law was published in 1993 and amended in 2000, 2009, and 2018. Under this law, producers and vendors of defective products may incur liability for losses and injuries caused by such products. There are only three conditions by which producers or vendors can have immunity from the defective product liability: 1) the defective products never be put into the market; 2) the defects do not exist when the products are put into the market; 3) the exam techniques and skills are not able to find out the defects when the products be put into the market. So far, our products quality is in conformity with the national requirements and we have passed the regulatory agency's examination and also successfully obtained the certificate of ISO 9001:2015 system.

In addition to Product Quality Law, there are also other Chinese laws that apply to the product liability. Under the Civil Code of the People's Republic of China which became effective on January 1, 2021, manufacturers or retailers of defective products that cause property damage or physical injury to any person will be subject to civil liability. The Law on the Protection of the Rights and Interests of Consumers (as amended in 2009), which was enacted to protect the legitimate rights and interests of end-users and consumers and to strengthen the supervision and control of the quality of products. Although we are highly confident with our product quality, some defective product may not be detected in time by us and accidentally put into the market. If so, our defective products cause any personal injuries or damage to assets, our customers have the right to claim compensation from us.

Under this law, a customer who suffers injury from a defective product can claim damages from either the manufacturer or vendor of the defective device. Under the Civil Code of the People's Republic of China, where a personal injury is caused by a tort, the tortfeasor shall compensate the victim for the reasonable costs and expenses for treatment and rehabilitation, as well as death compensation and funeral costs and expenses if it causes the death of the victim. There is no cap on monetary damages the plaintiffs may seek under this Law.

Regulation on Foreign Exchange Control

The principal regulations governing foreign currency exchange in China are the PRC Foreign Exchange Administration Regulations, or the Foreign Exchange Administration Regulations, most recently amended on August 5, 2008. Under the Foreign Exchange Administration Regulations, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions, interest and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China, unless prior approval of State Administration of Foreign Exchange, or the SAFE, or its local office has been obtained.

The Circular on Reforming the Management Approach regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprise, or SAFE Circular 19, which was promulgated by the SAFE on March 30, 2015 and was most recently amended on December 30, 2019, allows foreign-invested enterprises, or FIEs, to settle their foreign exchange capital at their discretion. The Renminbi converted from the foreign exchange capital will be kept in a designated account and if a FIE needs to make further payment from such account, it still needs to provide supporting documents and proceed with the review process with the banks. Furthermore, SAFE Circular 19 stipulates that the use of capital by FIEs shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of a FIE and capital in Renminbi obtained by the FIEs from foreign exchange settlement shall not be used for the following purposes: (i) directly or indirectly used for payments beyond the business scope of the enterprises or payments as prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities unless otherwise provided by the relevant laws and regulations; (iii) directly or indirectly used for granting entrust loans in Renminbi (unless permitted by the scope of business), repaying inter-enterprise borrowings (including advances by the third-party) or repaying the bank loans in Renminbi that have been sub-lent to third parties; or (iv) directly or indirectly used for expenses related to the purchase of real estate not for self-use (except for the foreign-invested real estate enterprises).

The Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular 16, which was promulgated by the SAFE and became effective on June 9, 2016, provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on a self-discretionary basis which applies to all enterprises registered in China. SAFE Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC Laws, while such converted Renminbi shall not be provided as loans to its non-affiliated entities.

The Circular on Further Promoting Cross-border Trade and Investment Facilitation, which was promulgated on October 23, 2019 by the SAFE and became effective on the same date, further cancels restrictions on the domestic equity investment by non-investment-oriented foreign-funded enterprises with their capital funds and provides that non-investment-oriented foreign-funded enterprises are allowed to make domestic equity investment with their capital funds in accordance with the law on the premise that the existing special administrative measures (negative list) for foreign investment access are not violated and the projects invested thereby in China are true and compliant.

On December 30, 2019, the MOFCOM and the SAMR, jointly promulgated the Measures for Information Reporting on Foreign Investment, which became effective on January 1, 2020. Pursuant to these measures, where a foreign investor carries out investment activities in China directly or indirectly, the foreign investor or the foreign-invested enterprise shall submit the investment information to the competent commerce department.

Pursuant to the Circular on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment, or the SAFE Circular No. 13, became effective on June 1, 2015 and was amended on December 31, 2019, and other laws and regulations relating to foreign exchange, when setting up a new foreign invested enterprise, the foreign invested enterprise shall register with the bank located at its registered place after obtaining the business license, and if there is any change in capital or other changes relating to the basic information of the foreign-invested enterprise, including without limitation any increase in its registered capital or total investment, the foreign invested enterprise must register such changes with the bank located at its registered place after obtaining the approval from or completing the filing with competent authorities. Pursuant to the relevant foreign exchange laws and regulations, the above-mentioned foreign exchange registration with the banks will typically take less than four weeks upon the acceptance of the registration application.

Regulation on Foreign Exchange Registration of Offshore Investment by mainland China Residents

In October of 2005, SAFE promulgated a Notification known as “Notification 75”, in which SAFE requires mainland China residents to register their direct establishment or indirect control of an offshore entity (referred to in Notice 37 as “special purpose vehicle.”), where such offshore entity are established for the purpose of overseas financing, provided that mainland China residents contribute their legally owned assets or equity into such entity. In July of 2014, this Notification was replaced by Notification 37, “Notification on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Returning Investment through Special Purpose Vehicles”, which expanded SAFE oversight scope to include overseas investment registration as well. Meanwhile, Notification 37 also covers more areas such as mainland China residents paying capital contribution with overseas assets or equity. Furthermore, Notification 37 requires amendment to the registration where any significant changes with respect to the special purpose vehicle capitalization or structure of the mainland China resident itself (such as capital increase, capital reduction, share transfer or exchange, merger or spin off). Our shareholders including natural persons or legal persons/institutes have been in compliance with such registration.

Regulation on Dividend Distributions

Our Mainland China Subsidiaries, Dongguan Dogness and Dongguan Jiasheng, are wholly foreign-owned enterprises under the PRC law. The principal regulations governing the distribution of dividends paid by wholly foreign-owned enterprises include: Corporate Law (1993) as amended in 2005, 2013, and 2018; The Wholly Foreign-Owned Enterprise Law (1986), as amended in 2000; The Wholly Foreign-Owned Enterprise Law Implementation Regulations (1990), as amended in 2001 and 2014; and the Enterprise Income Tax Law (2007) and its Implementation Regulations (2007).

Under these regulations, wholly foreign-owned and joint venture enterprises in China may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, an enterprise in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until its cumulative total reserve funds reaches 50% of its registered capital. Our Company’s reserve fund has not yet reached this level. The board of directors of a wholly foreign-owned enterprise has the discretion to allocate a portion of its after-tax profits to its employee welfare and bonus funds. These reserve funds, however, may not be distributed as cash dividends.

On March 16, 2007, the National People’s Congress enacted the Enterprise Income Tax Law, and on December 6, 2007, the State Council issued the Implementation Regulations on the Enterprise Income Tax Law, both of which became effective on January 1, 2008. Under this law and its implementation regulations, dividends payable by a foreign-invested enterprise in mainland China to its foreign investor who is a non-resident enterprise will be subject to a 10% (5% for Hong Kong residents) withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with mainland China that provides for a lower withholding tax rate.

M&A Rules and Regulation on Overseas Listings

On August 8, 2006, six PRC governmental agencies jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which became effective on September 8, 2006 and amended on June 22, 2009. The M&A Rules, among other things, requires that if an overseas company established or controlled by mainland China companies or individuals, or mainland China Citizens, intends to acquire equity interests or assets of any other mainland China company affiliated with the mainland China Citizens, such acquisition must be submitted to the MOFCOM for approval. The M&A Rules also require offshore special purpose vehicles formed to pursue overseas listing of equity interests in mainland China companies and controlled directly or indirectly by mainland China companies or individuals to obtain the approval of the Chinese Securities Regulatory Commission, or the CSRC, prior to the listing and trading of such special purpose vehicle's securities on any stock exchange overseas.

The Anti-Monopoly Law promulgated by the SCNPC on August 30, 2007 and effective on August 1, 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by MOFCOM before they can be completed. In addition, on February 3, 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or Circular 6, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Further, on August 25, 2011, MOFCOM promulgated the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors, or the MOFCOM Security Review Regulations, which became effective on September 1, 2011, to implement Circular 6. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having "national defense and security" concerns and mergers and acquisitions by which foreign investors may acquire the "de facto control" of domestic enterprises with "national security" concerns. Under the MOFCOM Security Review Regulations, MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If MOFCOM decides that a specific merger or acquisition is subject to security review, it will submit it to the Inter-Ministerial Panel, an authority established under the Circular 6 led by the NDRC, and MOFCOM under the leadership of the State Council, to carry out the security review. The regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. On February 7, 2021, the Anti-Monopoly Committee of the State Council promulgated the Anti-monopoly Guidelines for the Platform Economy Sector, or the Anti-monopoly Guideline, aiming to improve anti-monopoly administration on online platforms. The Anti-monopoly Guideline, operating as the compliance guidance under the existing PRC anti-monopoly regulatory regime for platform economy operators, specifically prohibits certain acts of the platform economy operators that may have the effect of eliminating or limiting market competition, such as concentration of undertakings.

Foreign Investment Law

On March 15, 2019, the National People's Congress, or the NPC, formally adopted the Foreign Investment Law, which became effective on January 1, 2020 and replaced the trio of laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. Meanwhile, the Regulations for the Implementation of the Foreign Investment Law was promulgated by the State Council on December 26, 2019 and came into effect as of January 1, 2020, which clarified and elaborated the relevant provisions of the Foreign Investment Law. The organization form, organization and activities of foreign-invested enterprises shall be governed, among others, by the Company Law of PRC and the Partnership Enterprise Law of PRC. Foreign-invested enterprises established before the implementation of the Foreign Investment Law may retain the original business organization and so on within five years after the implementation of this Law.

According to the Foreign Investment Law, foreign investments are entitled to pre-entry national treatment and are subject to negative list management system. The pre-entry national treatment means that the treatment given to foreign investors and their investments at the stage of investment access shall not be less favorable than that of domestic investors and their investments. The negative list management system means that the state implements special administrative measures for access of foreign investment in specific fields. Foreign investors shall not invest in any forbidden fields stipulated in the negative list and shall meet the conditions stipulated in the negative list before investing in any restricted fields. Foreign investors' investment, earnings and other legitimate rights and interests within the territory of China shall be protected in accordance with the law, and all national policies on supporting the development of enterprises shall equally apply to foreign-invested enterprises.

Pursuant to the Provisional Administrative Measures on Establishment and Modifications (Filing) for Foreign Investment Enterprises promulgated by the MOFCOM, on October 8, 2016 and amended on July 30, 2017 and June 29, 2018, respectively, establishment and changes of foreign investment enterprises which are not subject to the approval under the special entry management measures shall be filed with the relevant commerce authorities. However, as the PRC Foreign Investment Law has taken effect, the MOFCOM and the State Administration for Market Regulation, or the SAMR, jointly promulgated the Foreign Investment Information Report Measures, or the Information Report Measures, on December 19, 2019, which has taken effect since January 1, 2020. According to the Information Report Measures, which repealed the Provisional Administrative Measures on Establishment and Modifications (Filing) for Foreign Investment Enterprises, foreign investors or foreign invested enterprises shall report their investment related information to the competent local counterpart of the MOFCOM through Enterprise Registration System and National Enterprise Credit Information Notification System.

Regulation on Foreign Debt

A loan made by a foreign entity as direct or indirect shareholder in a FIE is considered to be foreign debt in China and is regulated by various laws and regulations, including the Regulation of the People's Republic of China on Foreign Exchange Administration, the Interim Provisions on the Management of Foreign Debts, the Statistical Monitoring of Foreign Debts Tentative Provisions, the Detailed Rules for the Implementation of Provisional Regulations on Statistics and Supervision of External Debt, and the Administrative Measures for Registration of Foreign Debts. Under these rules and regulations, a shareholder loan in the form of foreign debt made to a mainland China entity does not require the prior approval of SAFE. However, such foreign debt must be registered with and recorded by SAFE or its local branches within fifteen (15) business days after entering into the foreign debt contract. Pursuant to these rules and regulations, the maximum amount of the aggregate of (i) the outstanding balance of foreign debts with a term not longer than one year, and (ii) the accumulated amount of foreign debts with a term longer than one year, of a FIE shall not exceed the difference between its registered total investment and its registered capital, or Total Investment and Registered Capital Balance.

On January 12, 2017, the People's Bank of China, or PBOC, promulgated the Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing, or PBOC Circular 9, which sets forth an upper limit for mainland China entities, including FIEs and domestic enterprises, regarding their foreign debts. Pursuant to PBOC Circular 9, the outstanding cross-border financing of an enterprise (the outstanding balance drawn, here and below) shall be calculated using a risk-weighted approach, or Risk-Weighted Approach, and shall not exceed the specified upper limit, namely: risk-weighted outstanding cross-border financing \leq the upper limit of risk-weighted outstanding cross-border financing. Risk-weighted outstanding cross-border financing = \sum outstanding amount of RMB and foreign currency denominated cross-border financing * maturity risk conversion factor * type risk conversion factor + \sum outstanding foreign currency denominated cross-border financing * exchange rate risk conversion factor. Maturity risk conversion factor shall be 1 for medium- and long-term cross-border financing with a term of more than one year and 1.5 for short-term cross-border financing with a term of one year or less. Type risk conversion factor shall be 1 for on-balance-sheet financing and 1 for off-balance-sheet financing (contingent liabilities) for the time being. Exchange rate risk conversion factor shall be 0.5. The PBOC Circular 9 further provides that the upper limit of risk-weighted outstanding cross-border financing for enterprises, or Net Asset Limits, shall be 200% of its net assets. The PBOC Circular 9 does not supersede the Interim Provisions on the Management of Foreign Debts, but rather serves as a supplement to it. PBOC Circular 9 provided for a one-year transitional period, or the Transitional Period, from its promulgation date for FIEs, during which period FIEs could choose to calculate their maximum amount of foreign debt based on either (i) the Total Investment and Registered Capital Balance, or (ii) the Risk-Weighted Approach and the Net Asset Limits. Under the PBOC Circular 9, after the Transitional Period ends on January 11, 2018, the PBOC and SAFE will determine the cross-border financing administration mechanism for the foreign-invested enterprises after evaluating the overall implementation of PBOC Circular 9. In addition, according to PBOC Circular 9, a foreign loan must be filed with SAFE through the online filing system of SAFE after the loan agreement is signed and at least three business days prior to the borrower withdraws any amount from such foreign loan.

Employment Laws

In accordance with the PRC National Labor Law, which became effective in January 1995, as amended subsequently in 2009 and 2018, and the PRC Labor Contract Law, which became effective in January 2008, as amended subsequently in December 2012, employers must enter into written labor contracts with full-time employees in order to establish an employment relationship. All employers must pay their employees at least with the local minimum wage standards. All employers are required to establish a work environment of safety and sanitation, strictly abide by state rules and standards, and provide employees with appropriate workplace safety training. In addition, employers are obliged to pay contributions to the social insurance plan and the housing fund plan for employees.

We have entered into employment agreements with all of our full-time employees. We have contributed to the basic and minimum social insurance plan. Due to a high employee turnover rate in our industry, however, it is difficult for us to comply fully with the law. Some of our employees have even request not to participate in the social insurance plan because they do not want us to make deduction on their salaries.

While we believe we have made adequate provision of such outstanding amounts of contributions to such plans in our financial statements, any failure to make sufficient payments to such plans would be in violation of applicable PRC laws and regulations and, if we are found to be in violation of such laws and regulations, we could be required to make up the contributions for such plans as well as to pay late fees and fines.

PRC Enterprise Income Tax Law and Individual Income Tax Law

In 2007 China published Enterprise Income Tax Law (“EIT Law”) and its Implementation Rule, both of which came into effect since January 1, 2008. Under the EIT Law and its Rule, enterprises are classified as resident enterprises and non-resident enterprises. Resident enterprises typically pay an enterprise income tax at the rate of 25%. An enterprise established outside of mainland China with its “de facto management bodies” located within the PRC is considered a “resident enterprise,” meaning that it can be treated in a manner similar to a mainland China domestic enterprise for enterprise income tax purposes. The Rule defines “de facto management body” as a managing body that in practice exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

On the other hand, the State Administration of Taxation provides certain specific criteria for determining whether the “de facto management body” of a mainland China-controlled offshore enterprise is located within mainland China. Simply speaking, the criteria is more focused on substantive rather than format. Pursuant to its Circular 82 of 2009, the criteria to determine “de facto management body” include: (a) the senior management and core management departments in charge of its daily operations function have their presence mainly in mainland China; (b) its financial and human resources decisions are subject to determination or approval by persons or bodies in mainland China; (c) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in mainland China; and (d) more than half of the enterprise’s directors or senior management with voting rights habitually reside in mainland China. Furthermore, the SAT published Bulletin 45 in September 2011, which provides more guidance on the implementation of the definition and provides for procedures and administration details on determining resident status and administration on post-determination matters.

However, the SAT Circular 82 and Bulletin 45 only apply to offshore enterprises controlled by mainland China enterprises or mainland China enterprise groups rather than those controlled by mainland China individuals or foreign individuals. So far there is no further criteria passed yet and no applicable legal precedents either, therefore it remains unclear how the PRC tax authorities will determine the mainland China tax resident treatment of a foreign company controlled by individuals. Under these existing criteria, it is possible that we will be classified as a “resident enterprise” for mainland China enterprise income tax purposes. If so, it would likely result in unfavorable tax consequences to our non-mainland China shareholders and have a material adverse effect on our results of operations and the value of your investment.

Regulations on Intellectual Property

China joined WTO in 2001 and signed the treaty of TRIPS (Agreement on Trade-Related Aspects of Intellectual Property Rights), therefore China's IP laws are very much close to TRIPS.

Trademarks

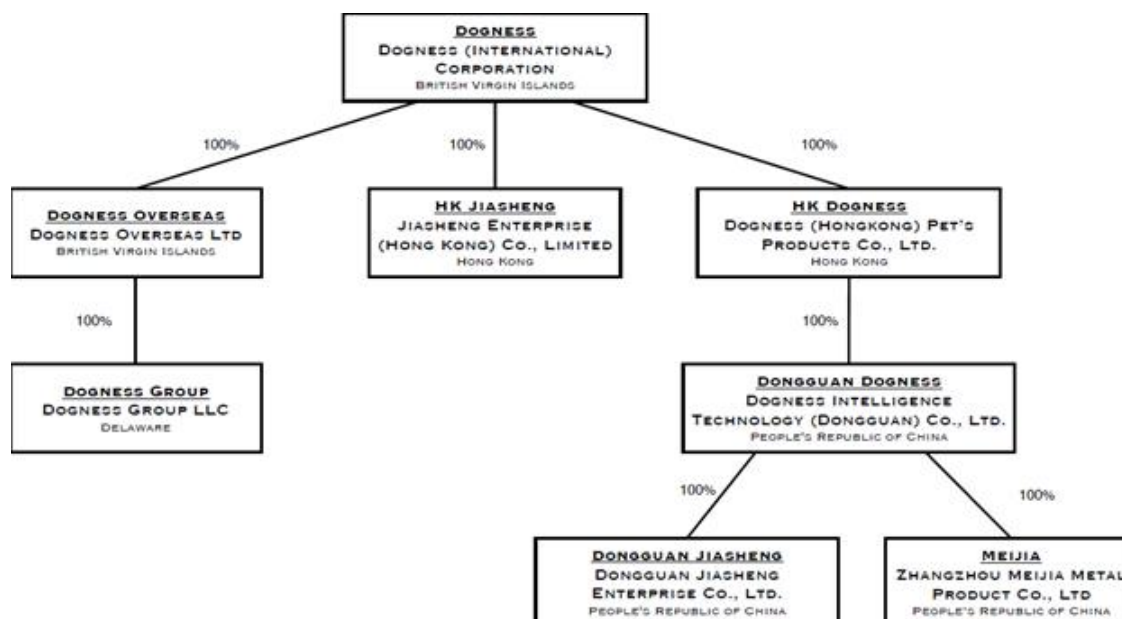
Trademarks are protected by the PRC Trademark Law adopted in 1982 and lastly amended in 1993, 2001, and 2013 as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council in 2002 and amended in 2014. The Trademark Office under the State Administration for Industry and Commerce ("SAIC") handles trademark registrations. Trademarks can be registered for a term of ten years and can be repeatedly extended for another ten-year term at the time of expiry. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. As of the date of this report, we have registered 181 trademarks (including 162 trademarks in China), all of which are fully owned and in use by us. According to Chinese Trademark Law, if anyone has a dispute the officially registered trademarks, he can file a petition to the review board of the Trademark Office, requesting a comprehensive review that may result in the revoking the registered trademarks. So far, we have not received any such kind of petition and we strongly believe there will not be such petition because our trademarks are firstly used as well as firstly registered by us.

Patents

Inventions, utility models, and designs with the features of novelty, inventiveness and practical applicability, are three kinds of patent defined and protected under China's Patent Law. The State Intellectual Property Office is responsible for examining and approving patent applications. Once the application is approved, the applicants can have their patent under Chinese legal protection for a long term since its application date, which is 20 years for invention and ten years for utility models and designs. As of the date of this report, we have successfully obtained 135 patents (including 87 in China), which includes 15 invention patents, 50 utility patents, and 70 appearance patents.

C. Organizational Structure

Below is a chart representing our current corporate structure:



Our registered office in the British Virgin Islands is at AMS Trustees Limited, Sea Meadow House, Blackburne Highway, P.O. Box 116, Road Town, Tortola, British Virgin Islands, telephone +1 (284) 494-3399.

D. Property, Plants and Equipment

There is no private land ownership in China. Individuals and entities are permitted to acquire land use rights for specific purposes. The land use rights to the property on which our facilities are situated are held by the parties from which we lease such property.

At our facility in Dongguan, our company leases the factory building, office building, guard booth, power room and dormitory from Dongguan Dongcheng District Tongsha Huanggongkeng Co-op, an unrelated third party. The total leased area spans 10,292 square meters. The lease commenced May 1, 2009 has been renewed twice; the current expiration date is April 30, 2027. We estimate that the productive capacity of our main factory is 8,500,000 pieces per year, and our current utilization rate is approximately 65%.

The registered office of Dogness Intelligent Technology (Dongguan) Co., LTD. is leased from Dongguan Jiasheng and consists of 500 square meters on the site of our facility in Dongguan.

On March 14, 2018, Dogness Group purchased an office building of 6,373 square feet for \$1.37 million in Dallas, Texas, which serves as the office, quality control, testing area and drop shipment location for Dogness Group.

On March 16, 2018, the Company acquired all of the equity of Zhangzhou Meijia Metal Product Co., Ltd (“Meijia”). The Company paid total consideration of approximately \$10.0 million in connection with the acquisition of equity of Meijia. Meijia owns the land use right to a land parcel of 19,144.54 square meters and a factory and office buildings of an aggregate of 18,912.38 square meters. Except for holding the land use right and the buildings, Meijia has no substantial business operations, nor has it had any production or sales activities since its inception. The Company plans to use this land use right and buildings as a production facility. The Company originally budgeted approximately RMB 110 million (\$17.0 million) to develop the facility. The actual costs were adjusted based on additional work required for waterproofing, sewage pipeline and hazardous waste leakage prevention. As a result, total actual costs incurred as of June 30, 2021, amounted to RMB 118.5 million (\$18.4 million). The Meijia plant started test operations in August 2019 and started normal production in December 2019 upon passing the final inspection conducted by the local government. The Meijia plant has reached its designed production capacity in June 2021.

In July 2018, the Company entered a long-term lease that expires October 14, 2038 for 7,026 square meters of land and 5,000 square meters of buildings in Dongguan city. The Company plans to use this new property as a warehousing facility, given limited storage capacity at its other facilities. Lease expenses for this property were approximately \$4.5 million, which amount was paid in full on October 9, 2018. The total budget was approximately RMB263.5 million (\$36.3 million). As of June 30, 2022, the Company had completed this project and transferred all of the related CIP to fixed assets. As of June 30, 2023, the Company has made total payments of approximately RMB261.7 million (\$36.1 million) in connection to this project, which resulted in future minimum capital expenditure payments of approximately RMB1.8 million (\$0.3 million), the Company plan to pay remaining payments within twelve months after June 30, 2023.

The Company's subsidiary Dogness Culture (in the process of being liquidated as of the date of this report) also worked on a project to decorate a pet themed retail store. Total budget was RMB 2.2 million (\$0.3 million). This project was fully completed during the year ended June 30, 2021. As of June 30, 2023, the Company has fully paid for the project.

Fixed assets at our properties consist of office equipment, buildings, structures, ancillary facilities, and equipment for production of metal, plastic and nylon components of leashes, collars and lanyards, including jacquard machines, injection modeling equipment, die casting machines, dying machines, and computerized sewing machines.

None of our property is affected by any environmental issues that may affect our use of the property.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

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

Overview of Company

Dogness (International) Corporation ("Dogness" or the "Company"), is a company limited by shares established under the laws of the British Virgin Islands ("BVI") on July 11, 2016. We are not a Chinese operating company but a British Virgin Islands holding company with operations conducted by our subsidiaries established in Delaware, mainland China, Hong Kong Special Administrative Region of the People's Republic of China and British Virgin Islands. The Company, through its subsidiaries, is primarily engaged in the design, manufacturing and sales of various types of pet leashes, pet collars, pet harnesses, intelligent pet products and retractable leashes with products being sold all over the world mainly through distributions by large retailers.

Dongguan Jiasheng Enterprise Co., Ltd. (“Dongguan Jiasheng”) was incorporated in mainland China on May 15, 2009, and was established to develop and manufacture pet leash and lanyard products. Dongguan Jiasheng is the main operating entity and is engaged in the research and development, manufacturing and distribution of various types of gift suspenders, pet belts ribbon, lace, elastic belt, computer jacquard ribbon and high-grade textile lace. Dogness (Hongkong) Pet’s Products Co., Limited (“HK Dogness”) and Jiasheng Enterprise (Hongkong) Co., Limited (“HK Jiasheng”) were incorporated in Hong Kong on March 10, 2009 and July 12, 2007, respectively, and were established to operate principally as trading companies. The equity interests of Dongguan Jiasheng, HK Dogness, and HK Jiasheng (collectively, the “Transferred Entities”) were 100% controlled by our founder and Chief Executive Officer, Mr. Silong Chen (the “Controlling Shareholder”).

A reorganization of the legal structure was completed on January 9, 2017. The reorganization involved (i) the incorporation of the Company, (ii) the incorporation of Dogness Intelligent Technology (Dongguan) Co., Ltd. (“Dongguan Dogness”), a holding company established under PRC laws, 100% owned by HK Dogness, and considered a wholly foreign-owned entity (“WFOE”) in mainland China, and (iii) the transfer of HK Dogness, HK Jiasheng and Dongguan Jiasheng (collectively, the “Transferred Entities”) from the Controlling Shareholder to the Company and Dongguan Dogness. Specifically, on November 24, 2016, the Controlling Shareholder transferred his 100% ownership interest in Dongguan Jiasheng to Dongguan Dogness. On January 9, 2017, the Controlling Shareholder transferred his 100% equity interests in HK Dogness and HK Jiasheng to the Company. After the reorganization, the Company ultimately owns 100% of the equity interests of the entities mentioned above. As of the date of this Report, the Controlling Shareholder owns 23.85% equity interest of the Company.

Since the Company and its wholly-owned subsidiaries were effectively controlled by the same Controlling Shareholder before and after the reorganization, they are considered under common control. The above-mentioned transactions were accounted for as a recapitalization. The consolidation of the Company and its subsidiaries has been accounted for at historical cost and prepared on the basis as if the aforementioned transactions had become effective as of the beginning of the first period presented in the accompanying consolidated financial statements.

In January 2018, the Company formed a Delaware limited liability company, Dogness Group LLC, with its operation focusing primarily on promoting the Company’s pet products sales in the United States. In February 2018, Dogness Overseas Ltd, which is wholly owned by the Company, was established in the British Virgin Islands as a holding company. Dogness Overseas Ltd owns all of the interests in Dogness Group LLC.

On March 16, 2018 (the “Acquisition Date”), the Company entered into a share purchase agreement to acquire 100% of the equity interests in Zhangzhou Meijia Metal Product Co., Ltd (“Meijia”) from its original shareholder, Long Kai (Shenzhen) Industrial Co., Ltd (“Longkai”), for a total cash consideration of approximately \$11.1 million (or RMB71.0 million). After the acquisition, Meijia became the Company’s wholly-owned subsidiary. Meijia owns the land use right to a land parcel of 19,144.54 square meters and a factory and office buildings of an aggregate of 18,912.38 square meters. This Acquisition enables the Company to build its own facility instead of leasing manufacturing facilities and expand its production capacity sustainably to meet increased customer demand. Total budgeted capital expenditure to bring Meijia manufacturing facility into use was originally estimated to be completed at a cost of RMB 110 million (\$17.0 million). The actual costs have been adjusted based on additional works required for waterproofing, sewage pipeline and hazardous waste leakage prevention. Meijia plant has reached its designed production capacity by June 2021.

On July 6, 2018, Dogness Intelligence Technology Co., Ltd. (“Intelligence Guangzhou”) was incorporated under the laws of PRC in Guangzhou City of Guangdong Province in China with a total registered capital of RMB 80 million (approximately \$11.0 million). One of the Company’s subsidiaries, Dongguan Jiasheng, owned 58% of Intelligence Guangzhou, with the remaining 42% ownership interest owned by two unrelated entities. Intelligence Guangzhou had immaterial operation since its inception and was expected to conduct research and manufacturing of the Company’s fast-growing intelligent pet products in the future. Due to the fact that Intelligence Guangzhou had no business activities since the incorporation and Dongguan Jiasheng had not made any capital contribution, in August 2022, the Board approved to sell the Company’s 58% ownership interest in Intelligence Guangzhou to a third party for a nominal price. The transaction was completed on August 10, 2022.

Dogness Pet Culture (Dongguan) Co., Ltd. (“Dogness Culture”) was incorporated on December 14, 2018 with registered capital of RMB 10 million (approximately \$1.5 million). The capital was not paid and there were no active business operations. On January 15, 2020, the Company’s subsidiary, Dongguan Dogness, entered into an agreement with the original shareholder of Dogness Culture, who is related to Mr. Silong Chen, our Chief Executive Officer, to acquire 51.2% ownership interest of Dogness Culture for a nominal fee. The remaining equity interest of 48.8% was also transferred to other two third parties for a nominal fee. Dongguan Dogness thereafter contributed cash consideration of RMB 5.12 million (approximately \$0.79 million) on April 16, 2020 along with other two shareholders’ capital contributions of RMB 4.88 million (approximately \$0.76 million). Dogness Culture was focusing on developing and expanding pet food market in China. On July 19, 2023, the Board approved the liquidation, dissolution, and termination of Dogness culture following the signing of a termination agreement among Dogness’s Culture’s shareholders on May 8, 2023. As of the date of this annual report, Dogness Culture is in the process of being liquidated.

In recent years, we have invested large amounts of funds, to establish an environmentally friendly ribbon dyeing process, computer jacquard department, screen printing department and thermal transfer printing department. The adoption of ISO 9001:2015 international quality system enables us to be more effective in the various production processes to guarantee product quality, and ensure stable and efficient production. We also have an in-house testing laboratory and frequently perform tests on all of our products to maintain a high level of quality in both materials and workmanship.

Our primary raw materials in production of our products are plastic, leather, nylon, polyester, chemical fiber blended fabric, metal, GPPS and HIPS, most of which are extracted from crude oil. Thus, our cost of raw material is highly impacted by fluctuations in the price of oil. Cost of revenues mainly includes costs of raw materials, costs of direct labor, utilities, depreciation expenses and other overhead.

Our major products include traditional pet products, intelligent pet products, and climbing hooks and others products, such as mouth covers and pet charms. We also provide ribbon dyeing service for external customers, as well as other services, such as pet grooming services. Revenues by products and services categories are summarized below:

| Products and services category | For the Years ended June 30, | | | | | |
|----------------------------------|------------------------------|--------------------|---------------|--------------------|---------------|--------------------|
| | 2023 | | 2022 | | 2021 | |
| | Amount | % of total Revenue | Amount | % of total Revenue | Amount | % of total Revenue |
| Products | | | | | | |
| Traditional pet products | \$ 8,302,299 | 47.2% | \$ 11,433,159 | 42.2% | \$ 14,331,492 | 58.9% |
| Intelligent pet products | 7,404,407 | 42.1% | 13,492,076 | 49.8% | 7,801,070 | 32.1% |
| Climbing hooks and others | 1,806,369 | 10.3% | 1,761,341 | 6.5% | 1,340,686 | 5.5% |
| Total revenue from product sales | 17,513,075 | 99.6% | 26,686,576 | 98.5% | 23,473,248 | 96.5% |
| Services | | | | | | |
| Dyeing services | - | -% | 342,561 | 1.3% | 817,145 | 3.4% |
| Other services | 71,379 | 0.4% | 66,060 | 0.2% | 29,728 | 0.1% |
| Total revenue from services | 71,379 | 0.4% | 408,621 | 1.5% | 846,873 | 3.5% |
| Total revenue | \$17,584,454 | 100.0% | \$27,095,197 | 100.0% | \$24,320,121 | 100.0% |

During the year ended June 30, 2023, our products were sold in 32 countries. Our major customers include Anyi trading, Costco, Trendspark, PetSmart, Petco, Pet Value, Walmart, Target, IKEA, SimplyShe, Pets at Home, PETZL, and Petmate, etc. We also sold our products on popular online shopping sites, including Amazon, Chewy, JD, Tmall and Taobao, and on those live streaming sales platforms hosted by influencers.

Export sales accounted for 64.0%, 53.7% and 43.7% of the total sales for the years ended June 30, 2023, 2022 and 2021, respectively, while China domestic sales accounted for 36.0%, 46.3% and 56.3% for the years ended June 30, 2023, 2022 and 2021, respectively. The breakdown of the sales by geographic areas is shown below:

| Geographic location | For the year ended June 30, 2023 | | For the year ended June 30, 2022 | | For the year ended June 30, 2021 | |
|--------------------------------|---|-------------------------------|---|-------------------------------|---|-------------------------------|
| | Amount | % of total Revenue | Amount | % of total Revenue | Amount | % of total Revenue |
| Sales to international markets | \$ 11,253,079 | 64.0% | \$ 14,542,323 | 53.7% | \$ 10,627,253 | 43.7% |
| Sales in China domestic market | 6,331,375 | 36.0% | 12,552,874 | 46.3% | 13,692,868 | 56.3% |
| Total | \$17,584,454 | 100.0% | \$27,095,197 | 100.0% | \$24,320,121 | 100.0% |

For the year ended June 30, 2023, the Company's four largest customers accounted for 15.4%, 11.6%, 8.8% and 5.3% of the Company's total revenue, respectively. For the year ended June 30, 2022, the Company's four largest customers accounted for 23.4%, 6.7%, 6.7% and 5.7% of the Company's total revenue, respectively. For the year ended June 30, 2021, the Company's three largest customers accounted for 32.0%, 9.1% and 6.9% of the Company's total revenue, respectively.

| | For the years ended June 30, | | |
|---|-------------------------------------|-------------|-------------|
| | 2023 | 2022 | 2021 |
| | % of total revenue | | |
| Dongguan Anyi Trading Co., Ltd. | 15.4% | 23.4% | 32.0% |
| Petco Asua LLC | -% | -% | 9.1% |
| Shenzhen Wosibao Technology Co., Ltd | -% | -% | 6.9% |
| Mid Ocean Brands B.V. | 11.6% | 6.7% | -% |
| Dogness Network Technology Co., Ltd | 8.8% | 6.7% | 5.0% |
| Dongguan Ruisheng Development Co., Ltd. | -% | -% | 3.6% |
| Costco Wholesale Corporation | -% | 5.7% | -% |
| Velcro Europe S.A. | 5.3% | -% | -% |

Market outlook

The company's operations will continue to be negatively affected by the ongoing trade dispute between China and the United States, which may result in uncertainties in our export sales in the coming months.

To mitigate the impact of weak sales, we are focusing on developing new customers and markets, as well as developing a new generation of intelligent pet products. We have expanded our sales channels from traditional trading to online shopping channels, which allows us to gain direct access to more potential customers from domestic and international markets. This is particularly important to attract younger generations who are more interested in our smart pet products. At the same time, we are implementing cost-saving measures to improve production efficiency and profit margins.

Our Growth Strategy

We are committed to enhancing profitability and cash flows through the following strategies:

Develop innovative products and services. We focus on developing and strengthening our brand identity and emphasizing our unique offerings for customers and promoting our strong value proposition. Through extensive and on-going customer research, we are gaining valuable insights into the wants and needs of our customers and we are developing solutions and communication strategies to address them. We continually seek opportunities to strengthen our merchandising capabilities, which allow us to provide a differentiated product assortment, including our exclusive smart pet specialty products and our proprietary brand offerings, to deliver innovative solutions and value to our customers. We believe developing innovative products will further differentiate us from our competitors, allow us to forge a strong relationship with our customers, build loyalty, enhance our market position, increase transaction size and enhance operating margins.

Mergers and Acquisitions. When capital permits, we intend to capitalize on the challenges that smaller companies are encountering in our industry by acquiring complementary companies at favorable prices. We believe that acquiring rather than building capacity is an option that may be more beneficial to us if replacement costs are higher than purchase prices. We continue to look into acquiring smaller pet product manufacturers in China as part of our expansion plans. Some of the companies we may seek to acquire are suppliers of the raw materials or components we purchase to manufacture our products to further expand and integrate the industrial chain. If we do acquire such companies, we will have greater control over our manufacturing cost. Our expansion strategy includes increasing our share in existing pet specialty products markets, penetrating new markets and achieving operating efficiencies and economies of scale in merchandising, distribution, information systems, procurement, and marketing, while providing a return on investment to our stockholders.

Supply Chain Efficiencies and Scale. We intend to streamline our supply chain process and leverage our economies of scale. We seek suppliers that will strategically partner with us to create long-term shareholder value. We also aim to scale our supply chain to accommodate growth, cut costs and improve efficiency and drive continuous improvement, mitigate supply chain risks, and develop innovative approaches to product development.

From a long-term perspective, we believe the above-mentioned strategic initiatives will still help our future sales growth. Through continuous endeavor for product innovation, better management our capital expenditure and leveraging costs, we expect that we could further improve our sales and product margins to produce profitability and return on investment for our shareholders in the near future.

Results of Operations

Comparison of Operation Results for the Years Ended June 30, 2023 and 2022

The following table summarizes the results of our operations for the years ended June 30, 2023 and 2022, respectively, and provides information regarding the dollar and percentage increase or (decrease) during such periods.

| | For the Year ended June 30, 2023 | | For the Year ended June 30, 2022 | | Changes | |
|---|---|-----------------------------------|---|-----------------------------------|------------------------|-----------------|
| | Amount | % of total Revenue | Amount | % of total Revenue | Amount | % |
| Revenues | \$ 17,584,454 | 100.0% | \$ 27,095,197 | 100.0% | \$ (9,510,743) | (35.1)% |
| Cost of revenues | 13,923,166 | 79.2% | 16,956,132 | 62.6% | (3,032,966) | (17.9)% |
| Gross profit | 3,661,288 | 20.8% | 10,139,065 | 37.4% | (6,477,777) | (63.9)% |
| Operating expenses | | | | | | |
| Selling expenses | 2,478,163 | 14.1% | 2,077,174 | 7.7% | 400,989 | 19.3% |
| General and administrative expenses | 9,800,714 | 55.7% | 6,742,687 | 24.9% | 3,058,027 | 45.4% |
| Research and development expense | 931,078 | 5.3% | 917,227 | 3.4% | 13,851 | 1.5% |
| Loss from disposal of fixed assets | 15,306 | 0.1% | 327,921 | 1.2% | (312,615) | (95.3)% |
| Total operating expenses | 13,225,261 | 75.2% | 10,065,009 | 37.1% | 3,160,252 | 31.4% |
| (Loss) income from operations | (9,563,973) | (54.4)% | 74,056 | 0.3% | (9,638,029) | (13,014.5)% |
| Other income (expenses) | | | | | | |
| Interest income (expense), net | (330,824) | (1.9)% | (370,108) | (1.4)% | 39,284 | (10.6)% |
| Foreign exchange gain | 800,403 | 4.6% | 246,211 | 0.9)% | 554,192 | 225.1% |
| Other income | 112,109 | 0.6% | 115,016 | 0.4% | (2,907) | (2.5)% |
| Rental income from related parties, net | 295,362 | 1.7% | 173,089 | 0.6% | 122,273 | 70.6% |
| Total other income | 877,050 | 5.0% | 164,208 | 0.6% | 712,842 | 434.1% |
| (Loss) income before income taxes | (8,686,923) | (49.4)% | 238,264 | 0.9% | (8,925,187) | (3,745.9)% |
| Income tax benefit | (1,227,449) | (7.0)% | (2,777,868) | (10.3)% | 1,550,419 | (55.8)% |
| Net (loss) income | <u>\$ (7,459,474)</u> | <u>(42.4)%</u> | <u>\$ 3,016,132</u> | <u>11.1%</u> | <u>\$ (10,475,606)</u> | <u>(347.3)%</u> |

Revenues. Revenues decreased by approximately \$9.5 million, or 35.1%, to approximately \$17.6 million in fiscal 2023 from approximately \$27.1 million in fiscal 2022. The decrease in revenue was primarily attributable to the significant decreased sales in both domestic and international markets.

Revenue by Products and Services Type

The breakdown of our revenue by products and services categories is as follows:

| Products and services category | For the Years ended June 30, | | | | | |
|--------------------------------|------------------------------|--------------------|---------------------|--------------------|-----------------------|----------------|
| | 2023 | | 2022 | | Changes | |
| | Amount | % of total Revenue | Amount | % of total Revenue | Amount | % |
| Products | | | | | | |
| Traditional pet products | \$ 8,302,299 | 47.2% | \$ 11,433,159 | 42.2% | \$ (3,130,860) | (27.4)% |
| Intelligent pet products | 7,404,407 | 42.1% | 13,492,076 | 49.8% | (6,087,669) | (45.1)% |
| Climbing hooks and others | 1,806,369 | 10.3% | 1,761,341 | 6.5% | 45,028 | 2.6% |
| Total revenue from products | <u>17,513,075</u> | <u>99.6%</u> | <u>26,686,576</u> | <u>98.5%</u> | <u>(9,173,501)</u> | <u>(34.4)%</u> |
| Services | | | | | | |
| Dyeing services | - | -% | 342,561 | 1.3% | (342,561) | (100.0)% |
| Other services | 71,379 | 0.4% | 66,060 | 0.2% | 5,319 | 8.1% |
| Total revenue from services | <u>71,379</u> | <u>0.4%</u> | <u>408,621</u> | <u>1.5%</u> | <u>(337,242)</u> | <u>(82.5)%</u> |
| Total | <u>\$17,584,454</u> | <u>100.0%</u> | <u>\$27,095,197</u> | <u>100.0%</u> | <u>\$ (9,510,743)</u> | <u>(35.1)%</u> |

| Products | Total Revenue for the years ended June 30, | | Units sold in 2023 | Units sold in 2022 | Variance in Units sold | % of units variance | Average unit price | | Price Difference |
|---------------------------|--|---------------------|--------------------|--------------------|------------------------|---------------------|--------------------|---------------|------------------|
| | 2023 | 2022 | | | | | 2023 | 2022 | |
| Traditional pet products | \$ 8,302,299 | \$ 11,433,159 | 10,949,243 | 10,813,092 | 136,151 | 1.3% | \$ 0.8 | \$ 1.1 | \$ (0.3) |
| Intelligent pet products | 7,404,407 | 13,492,076 | 373,796 | 441,042 | (67,246) | (15.2)% | 19.8 | 30.6 | (10.8) |
| Climbing hooks and others | 1,806,369 | 1,761,341 | 940,733 | 1,040,551 | (99,818) | (9.6)% | 1.9 | 1.7 | 0.2 |
| Total | <u>\$17,513,075</u> | <u>\$26,686,576</u> | <u>12,263,772</u> | <u>12,294,685</u> | <u>(30,913)</u> | <u>(0.3)%</u> | <u>\$ 1.4</u> | <u>\$ 2.2</u> | <u>\$ (0.8)</u> |

Traditional pet products

Revenue from traditional pet products decreased by approximately \$3.1 million, or 27.4%, from approximately \$11.4 million in fiscal 2022, to approximately \$8.3 million in fiscal 2023. The decrease was mainly due to decrease in average selling price of \$0.3 per unit in fiscal 2023 compared to fiscal 2022. Among the total revenue decrease, approximately \$2.7 million was due to the decreased sales in Chinese domestic market, as a result of fierce competition, while the remaining approximately \$0.5 million decrease was from sales to customers in overseas markets.

Intelligent pet products

Revenue from intelligent pet products decreased by approximately \$6.1 million, or 45.1%, from approximately \$13.5 million in fiscal 2022 to approximately \$7.4 million in fiscal 2023. The decrease was mainly driven by a decrease in sales volume and a decrease in average selling price of \$10.8 per unit in fiscal 2023 compared to fiscal 2022. Among the total revenue decrease, approximately \$3.2 million was due to the decreased sales in Chinese domestic market, while the remaining approximately \$2.9 million decrease was from sales to customers in overseas markets.

Climbing hooks and others

Revenue from climbing hooks and others kept consistently at approximately \$1.8 million in fiscal 2023 and 2022.

Dyeing services

We utilize our manufacturing capability and color dyeing technology to provide dyeing solutions to customers. We recognize revenue at the point when dyeing solutions and related services are rendered, and the products after dyeing are delivered and accepted by the customers. We earned dyeing services fees of \$Nil and \$342,561 in fiscal 2023 and 2022, respectively.

Sales to related parties

During the year ended June 30, 2019, we acquired 10% of the ownership interest in Dogness Network Technology Co., Ltd (“Dogness Network”), for the purpose of working together to develop new products and new technologies in smart pet tech area.

The legal representative of Dogness Technology Co., Ltd (“Dogness Technology”) is Junqiang Chen, the relative of Mr. Silong Chen.

We sold certain intelligent pet products to Dogness Network and Dogness Technology, and accordingly reported related party sales of \$1,700,173 and \$2,212,579, which accounted for 9.7% and 8.2% of our total revenue in fiscal 2023 and 2022, respectively.

Cost of revenue associated with the sales to these two related parties amounted to \$1,162,314 and \$1,301,180 in fiscal 2023 and 2022, respectively.

Revenue by Geographic Area

The breakdown of our revenue by geographic areas is as follows:

| Country and Region | For the Years Ended June 30, | | | | | |
|---|------------------------------|--------------------|---------------------|--------------------|----------------------|----------------|
| | 2023 | | 2022 | | Changes | |
| | Amount | % of total Revenue | Amount | % of total Revenue | Amount | % |
| Mainland China | \$ 6,331,375 | 36.0% | \$12,552,874 | 46.3% | \$(6,221,499) | (49.6)% |
| United States | 6,221,436 | 35.4% | 7,980,436 | 29.6% | (1,759,000) | (22.0)% |
| Europe | 1,596,603 | 9.1% | 1,770,052 | 6.5% | (173,449) | (9.8)% |
| Japan and other Asian countries and regions | 2,572,091 | 14.6% | 3,009,931 | 11.1% | (437,840) | (14.5)% |
| Australia | 531,906 | 3.0% | 579,677 | 2.1% | (47,771) | (8.2)% |
| Canada | 294,241 | 1.7% | 1,168,689 | 4.3% | (874,448) | (74.8)% |
| Central and South America | 36,802 | 0.2% | 33,538 | 0.1% | 3,264 | 9.7% |
| Total | <u>\$17,584,454</u> | <u>100.0%</u> | <u>\$27,095,197</u> | <u>100%</u> | <u>\$(9,510,743)</u> | <u>(35.1)%</u> |

The breakdown of sales by products and services categories in international markets is as follows:

International sales

| International sales | For the Years ended June 30, | | | | | |
|---------------------------|------------------------------|--------------------|----------------------|--------------------|-----------------------|----------------|
| | 2023 | | 2022 | | Changes | |
| | Amount | % of total Revenue | Amount | % of total Revenue | Amount | % |
| Traditional pet products | \$ 5,710,572 | 50.7% | \$ 6,187,697 | 42.5% | \$ (477,125) | (7.7)% |
| Intelligent pet products | 4,611,727 | 41% | 7,538,259 | 51.9% | (2,926,532) | (38.8)% |
| Climbing hooks and others | 930,780 | 8.3% | 816,367 | 5.6% | 114,413 | 14.0% |
| Total | <u>\$ 11,253,079</u> | <u>100%</u> | <u>\$ 14,542,323</u> | <u>100.0%</u> | <u>\$ (3,289,244)</u> | <u>(22.6)%</u> |

Our total sales in international markets decreased by approximately \$3.3 million or 22.6% to approximately \$11.3 million in fiscal 2023, from approximately \$14.5 million in fiscal 2022. The decrease in our international sales was the result of the soft landing of the world economy post-pandemic, which was caused by inflation and interest rate hikes in the United States.

We had decreases in traditional pet products sales and intelligent pet products sales in fiscal 2023, compared to the same period in 2022. Sales of our traditional pet products and intelligent pet products, decreased by 7.7% and 38.8%, respectively.

We continue to collaborate with large retail chains in the US and Canada to distribute our smart pet products under our own brand, rather than just serving as an OEM supplier. Furthermore, we continue to expand our sales on online shopping platforms, such as Amazon and Chewy, to reach more potential customers. We anticipate that these efforts, coupled with the global economic recovery and the release of our new generation of intelligent pet products, will result in an increase in revenue in the near future. We believe that our new generation of intelligent pet products will continue to be the primary source of revenue for our international sales.

The breakdown of sales by products and services categories in China's domestic market is as follows:

Domestic sales

| Domestic sales | For the Years ended June 30, | | | | | |
|---------------------------|------------------------------|--------------------|----------------------|--------------------|-----------------------|----------------|
| | 2023 | | 2022 | | Changes | |
| | Amount | % of total Revenue | Amount | % of total Revenue | Amount | % |
| Traditional pet products | \$ 2,591,727 | 41.0% | \$ 5,245,462 | 41.8% | \$ (2,653,735) | (50.6)% |
| Intelligent pet products | 2,792,680 | 44.1% | 5,953,817 | 47.5% | (3,161,137) | (53.1)% |
| Climbing hooks and others | 875,589 | 13.8% | 944,974 | 7.5% | (69,385) | (7.3)% |
| Dyeing services | - | -% | 342,561 | 2.7% | (342,561) | (100.0)% |
| Other services | 71,379 | 1.1% | 66,060 | 0.5% | 5,319 | 8.1% |
| Total | <u>\$ 6,331,375</u> | <u>100.0%</u> | <u>\$ 12,552,874</u> | <u>100.0%</u> | <u>\$ (6,221,499)</u> | <u>(49.6)%</u> |

Our domestic sales decreased by approximately \$6.2 million or 49.6% from approximately \$12.6 million in fiscal 2022 to approximately \$6.3 million in fiscal 2023. The decrease was mainly due to a decrease in customer orders caused by intense competition in the domestic market.

Our domestic sales of traditional pet products and intelligent pet products, decreased by 50.6% and 53.1% in fiscal 2023 as compared to fiscal 2022.

Cost of revenues

During fiscal 2023, the cost of revenues amounted to approximately \$13.9 million, compared to approximately \$17.0 million in fiscal 2022. As a percentage of revenues, the cost of goods sold increased by approximately 16.6 percentage points, reaching 79.2% in fiscal 2023 from 62.6% in fiscal 2022. The decreased cost of goods sold was the result of lower sales volume.

Gross profit

Our gross profit decreased by approximately \$6.5 million or 63.9%, to approximately \$3.7 million in fiscal 2023 from approximately \$10.1 million in fiscal 2022, primarily attributable to the decreased average selling price of our intelligent pet products. Overall gross profit margin was 20.8%, a decrease of 16.6 percentage points, as compared to 37.4% in fiscal 2022.

Gross profit by products and services type

The breakdown of gross profit by product types is as follows:

| Products | For the Year ended June 30, | | | | | |
|---------------------------|-----------------------------|----------------|----------------------|----------------|----------------------|-----------------------|
| | 2023 | | 2022 | | Changes | |
| | Amount | Gross profit % | Amount | Gross profit % | Amount | Gross profit Pct. Pt. |
| Traditional pet products | \$ 1,178,545 | 14.3% | \$ 3,670,566 | 32.1% | \$(2,492,021) | (17.8) pct |
| Intelligent pet products | 1,804,804 | 24.4% | 5,909,099 | 43.8% | (4,104,295) | (19.4) pct |
| Climbing hooks and others | 616,282 | 34.2% | 535,758 | 30.4% | 80,524 | 3.8 pct |
| | <u>3,599,631</u> | <u>20.6%</u> | <u>10,115,423</u> | <u>37.9%</u> | <u>(6,515,792)</u> | <u>(17.3) pct</u> |
| Services | | | | | | |
| Dyeing services | - | -% | (35,272) | (10.3)% | 35,272 | 10.3 pct |
| Other services | 61,657 | 86.5% | 58,914 | 89.2 | 2,743 | (2.7) pct |
| Total | <u>\$ 3,661,288</u> | <u>20.8%</u> | <u>\$ 10,139,065</u> | <u>37.4%</u> | <u>\$(6,477,777)</u> | <u>(16.6) pct</u> |

Gross profit for traditional pet products decreased by approximately \$2.5 million in fiscal 2023 as compared to fiscal 2022. Gross profit margin decreased by 17.8 percentage points from 32.1% in fiscal 2022 to 14.3% in fiscal 2023, mainly due to a decrease of 27.3% in average selling price and increased costs.

Gross profit for intelligent pet products decreased by approximately \$4.1 million from approximately \$5.9 in fiscal 2022 to approximately \$1.9 million in fiscal 2023. Gross profit margin decreased by 19.4 percentage point from 43.8% in fiscal 2022 to 24.2% in fiscal 2023, mainly driven by a decrease of 35.3% in average selling price and increased costs.

Gross profit for climbing hooks and others increased by approximately \$0.1 million from approximately \$0.5 million in fiscal 2022 to \$0.6 million in fiscal 2023, mainly driven by a 11.8% increase in the average selling price. Overall gross margin for climbing hook increased by 3.8 percentage points from 30.4% in fiscal 2022 to 34.2% in fiscal 2023.

Expenses

| | For the Years ended June 30, | | | | | |
|-------------------------------------|------------------------------|--------------------|----------------------|--------------------|---------------------|-------------|
| | 2023 | | 2022 | | Changes | |
| | Amount | % of total Expense | Amount | % of total Expense | Amount | % |
| Selling expenses | \$ 2,478,163 | \$ 18.8 | \$ 2,077,174 | 20.6 | \$ 400,989 | 19.3 |
| General and administrative expenses | 9,800,714 | 74.1 | 6,742,687 | 67.0 | 3,058,027 | 45.4 |
| Research and development expenses | 931,078 | 7.0 | 917,227 | 9.1 | 13,851 | 1.5 |
| Loss from disposal of fixed assets | 15,306 | 0.1 | 327,921 | 3.3 | (312,615) | (95.3) |
| Total | <u>\$ 13,225,261</u> | <u>\$ 100.0</u> | <u>\$ 10,065,009</u> | <u>100</u> | <u>\$ 3,160,252</u> | <u>31.4</u> |

Selling expenses. Selling expenses primarily include expenses incurred for participating in various trade shows to promote product sales, salary and sales commission expenses paid to the Company's sales personnel, and shipping and delivery expenses. Selling expenses increased by approximately \$0.4 million or 19.3% from approximately \$2.1 million in fiscal 2022 to approximately \$2.5 million in fiscal 2023. The increase was due to more marketing research activities aimed at expanding our customer base. As a percentage of sales, our selling expenses were 14.1% and 7.7% of our total revenues in fiscal 2023 and 2022, respectively.

General and administrative expenses. Our general and administrative expenses include employee salaries, welfare and insurance expenses, depreciation and bad debt expenses, as well as consulting expenses. In fiscal 2023, general and administrative expenses increased by approximately \$3.1 million or 45.4% from approximately \$6.7 million in fiscal 2022 to approximately \$9.8 million in fiscal 2023. The increase was mainly due to higher rental expenses, share base compensations and professional consultant fees. As a percentage of sales, our general and administrative expenses were 74.1% and 24.9% of our total revenues in fiscal 2023 and 2022, respectively.

Research and development expenses. Our research and development expenses kept consistently at approximately \$0.9 million in fiscal 2023 and 2022. As a percentage of sales, our research and development expenses were 7.0% and 3.4% of our total revenues for in fiscal 2023 and 2022, respectively. We expect research and development expenses to continue to increase as we expand our research and development activities to increase the use of environmentally-friendly materials and develop more new high-tech products to meet customer demands.

Other income (expense), net. Other income primarily included interest income or expenses, foreign exchange gain or loss, rental income from related parties, gain from disposition of a subsidiary and other income or expenses. Other income was approximately \$0.9 million in fiscal 2023 as compared to approximately \$0.2 million in fiscal 2022. The increase was mainly attributable to an increase of approximately \$0.6 million in foreign exchange gain in fiscal 2023 as compared to fiscal 2022.

Income tax benefit. Income tax benefit was approximately \$1.3 million in fiscal 2023 as compared to approximately \$2.8 million in fiscal 2022.

The Company may be subject to challenges from various PRC taxing authorities regarding the amounts of taxes due, although the Company's management believes the Company has paid or accrued for all taxes owed by the Company. According to PRC taxation regulation and administrative practice and procedures, the statute of limitation on tax authority's audit or examination of previously filed tax returns expires three years from the date they were filed. The Company also obtained a written statement from the local tax authority that no additional taxes are due as of June 30, 2023. Based on these facts, the Company reversed the accrued tax liabilities in the total amount of approximately \$3.4 million (or RMB24,370,181) relating to the tax liabilities accrued for the period from fiscal 2016 to fiscal 2019, resulting in the decrease of accrued income tax liabilities from approximately \$4.2 million to approximately \$0.9 million as of June 30, 2023. The Company continues to discuss with the local tax authority to try to settle the remaining tax liabilities as soon as practicable, mostly related to its unpaid income tax and business tax.

Due to uncertainties associated with the status of examinations, including the protocols of finalizing audits by the relevant tax authorities, there is a high degree of uncertainty regarding the future cash outflows associated with the interest and penalties on these unpaid tax balances. The final outcome of this tax uncertainty is dependent upon various matters including tax examinations, interpretation of tax laws or expiration of status of limitation.

Net (loss) income. Net loss was approximately \$7.5 million in fiscal 2023, as compared to net income of approximately \$3.0 million in fiscal 2022. The net loss was the result of decreased sales and gross profit, as well as increased operating expenses as discussed above.

Other comprehensive loss. Foreign currency translation adjustments amounted to a loss of \$6,204,254 and \$3,203,448 in fiscal 2023 and 2022, respectively. The balance sheet amounts with the exception of equity at June 30, 2023 were translated at RMB7.2513 to \$1.00 as compared to RMB 6.6981 to \$1.00 at June 30, 2022. The equity accounts were stated at their historical rate. The average translation rates applied to the income statements accounts for the years ended June 30, 2023 and 2022 were RMB 6.9536 to \$1.00 and RMB 6.4554 to \$1.00, respectively. The change in the value of the 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. The impact attributable to changes in revenue and expenses due to foreign currency translation are summarized as follows.

| | For the Year ended June 30, 2023 | For the Year ended June 30, 2023 |
|------------------------------|---|---|
| Impact on revenue | \$ 721,476 | \$ 979,555 |
| Impact on operating expenses | \$ 542,622 | \$ 363,874 |
| Impact on net (loss) income | \$ (306,056) | \$ 109,040 |

For the year ended June 30, 2023, if using RMB7.2513 to \$1.00 (foreign exchange rate as of June 30, 2023), rather than the average exchange rate for year ended June 30, 2023, to translate our revenue, operating expense and net loss, our reported revenue, operation expense and net loss would decrease by \$721,476, \$542,622 and \$(306,056), respectively.

For the year ended June 30, 2022, if using the RMB6.6981 to \$1.00 (foreign exchange rate as of June 30, 2022), rather than the average exchange rate for the year ended June 30, 2022, to translate our revenue, operating expense and net income, our reported revenue, operation expense and net income would decrease by \$979,555, \$363,874 and negative \$109,040, respectively.

Comparison of Operation Results for the Years Ended June 30, 2022 and 2021

The following table summarizes the results of our operations for the years ended June 30, 2022 and 2021, respectively, and provides information regarding the dollar and percentage increase or (decrease) during such periods.

| | For the Year ended June 30, 2022 | | For the Year ended June 30, 2021 | | Changes | |
|---|---|-------------------------------|---|-------------------------------|---------------------|---------------|
| | Amount | % of total Revenue | Amount | % of total Revenue | Amount | % |
| Revenues | \$27,095,197 | 100.0% | \$24,320,121 | 100.0% | \$ 2,775,076 | 11.4% |
| Cost of revenues | 16,956,132 | 62.6% | 15,164,908 | 62.4% | 1,791,224 | 11.8% |
| Gross profit | 10,139,065 | 37.4% | 9,155,213 | 37.6% | 983,852 | 10.7% |
| Operating expenses | | | | | | |
| Selling expenses | 2,077,174 | 7.7% | 1,815,771 | 7.5% | 261,403 | 14.4% |
| General and administrative expenses | 6,742,687 | 24.9% | 4,941,036 | 20.3% | 1,801,651 | 36.5% |
| R&D expense | 917,227 | 3.4% | 540,613 | 2.2% | 376,614 | 69.7% |
| Loss from disposal of fixed assets | 327,921 | 1.2% | - | -% | 327,921 | -% |
| Total operating expenses | 10,065,009 | 37.1% | 7,297,420 | 30.0% | 2,767,589 | 37.9% |
| (Loss) income from operations | 74,056 | 0.3% | 1,857,793 | 7.6% | (1,783,737) | (96.0)% |
| Other income (expenses) | | | | | | |
| Interest income (expense), net | (370,108) | (1.4)% | (264,408) | (1.1)% | (105,700) | 40.0% |
| Foreign exchange (loss) gain | 246,211 | 0.9% | (228,260) | (0.9)% | 474,471 | (207.9)% |
| Other income | 115,016 | 0.4% | 215,233 | 0.9% | (100,217) | (46.6)% |
| Rental income from related parties, net | 173,089 | 0.6% | 354,968 | 1.5% | (181,879) | (51.2)% |
| Gain from disposition of a subsidiary | - | -% | 5,162 | 0.0% | (5,162) | (100.0)% |
| Total other income | 164,208 | 0.6% | 82,695 | 0.3% | 81,513 | 98.6% |
| Income (loss) before income taxes | 238,264 | 0.9% | 1,940,488 | 8.0% | (1,702,224) | (87.7)% |
| Income tax benefit (expense) | (2,777,868) | (10.3)% | 641,460 | 2.6% | (3,419,328) | (533.1)% |
| Net income | <u>\$ 3,016,132</u> | <u>11.1%</u> | <u>\$ 1,299,028</u> | <u>5.3%</u> | <u>\$ 1,717,104</u> | <u>132.2%</u> |

Revenues. Revenues increased by approximately \$2.8 million, or 11.4%, to approximately \$27.1 million in fiscal 2022 from approximately \$24.3 million in fiscal 2021. The increase in revenue was primarily attributable to the increased sales of our intelligent pet products which have much higher average selling price than our traditional pet products. The increase was mainly due to following reasons:

- 1) We continue to shift our focus and resources to produce and promote the sales of higher margin intelligent pet products. As a result, our sales volume for intelligent pet products increased by 14.1% for the year ended June 30, 2022 as compared to the year ended June 30, 2021
- 2) We continue to upgrade our production lines for traditional pet products to improve the productivity and lower the production costs. As a result, we are able to lower our selling price for traditional pet products, but still maintain desirable profit margins. Our sales strategy for traditional pet products successfully retained our customers, attracted new customers, and increased awareness for our intelligent pet products.
- 3) To mitigate the impact caused by COVID-19, we expanded our sales channels to more online shopping platforms, such as Amazon, Chewy, JD, Tmall and Taobao, as well as the live streaming sales platforms hosted by influencers. These ecommerce sales normally have higher profit margin than traditional sales channels.

Our average selling price increase in by 22.2% during the year ended June 30, 2022 as compared to the year ended June 30, 2021. The increase was largely due to increased sales of our intelligent pet products. Our sales of intelligent pet products account for approximately 49.8% of the total sales in fiscal 2022, as compared to approximately 32.1% in fiscal 2021.

Revenue by products and services type

The breakdown of our revenue by products and services type is as follows:

| Products and services category | For the Years ended June 30, | | | | | |
|---------------------------------------|-------------------------------------|---------------------------|----------------------|---------------------------|---------------------|----------------|
| | 2022 | | 2021 | | Changes | |
| | Amount | % of total Revenue | Amount | % of total Revenue | Amount | % |
| Products | | | | | | |
| Traditional pet products | \$ 11,433,159 | 42.2% | \$ 14,331,492 | 58.9% | \$ (2,898,333) | (20.2)% |
| Intelligent pet products | 13,492,076 | 49.8% | 7,801,070 | 32.1% | 5,691,006 | 73.0% |
| Climbing hooks and others | 1,761,341 | 6.5% | 1,340,686 | 5.5% | 420,655 | 31.4% |
| Total revenue from products | 26,686,576 | 98.5% | 23,473,248 | 96.5% | 3,213,328 | 13.7% |
| Services | | | | | | |
| Dyeing services | 342,561 | 1.3% | 817,145 | 3.4% | (474,584) | (58.1)% |
| Other services | 66,060 | 0.2% | 29,728 | 0.1% | 36,332 | 122.2% |
| Total revenue from services | 408,621 | 1.5% | 846,873 | 3.5% | (438,252) | (51.7)% |
| Total | \$ 27,095,197 | 100.0% | \$ 24,320,121 | 100.0% | \$ 2,775,076 | 11.4% |

| Products | Total Revenue for years ended June 30, | | Units sold in 2022 | Units sold in 2021 | Variance in Units sold | % of units variance | Average unit price | | Price |
|---------------------------|--|----------------------|--------------------|--------------------|------------------------|---------------------|--------------------|---------------|---------------|
| | 2022 | 2021 | | | | | 2022 | 2021 | Difference |
| Traditional pet products | \$ 11,433,159 | \$ 14,331,492 | 10,813,092 | 12,064,685 | (1,251,593) | (10.4)% | \$ 1.1 | \$ 1.2 | \$ (0.1) |
| Intelligent pet products | 13,492,076 | 7,801,070 | 441,042 | 386,467 | 54,575 | 14.1% | 30.6 | 20.2 | 10.4 |
| Climbing hooks and others | 1,761,341 | 1,340,686 | 1,040,551 | 828,070 | 212,481 | 25.7% | 1.7 | 1.6 | 0.1 |
| Total | <u>\$ 26,686,576</u> | <u>\$ 23,473,248</u> | <u>12,294,685</u> | <u>13,279,222</u> | <u>(984,537)</u> | <u>(7.4)%</u> | <u>\$ 2.2</u> | <u>\$ 1.8</u> | <u>\$ 0.4</u> |

Traditional pet products

Revenue from traditional pet products decreased by approximately \$2.9 million or 20.2% from approximately \$14.3 million in fiscal 2021 to approximately \$11.4 million in fiscal 2022. The decrease was mainly due to decrease of 10.4% in sales volume and decrease in average selling price of \$0.1 per unit in fiscal 2022 compared to fiscal 2021.

Intelligent pet products

Revenue from intelligent pet products increased by approximately \$5.7 million or 73.0%, from approximately \$7.8 million in fiscal 2021 to approximately \$13.5 million in fiscal 2022. The increase was driven by the increased average selling price of \$10.4 per unit in fiscal 2022 due to more higher selling price intelligent pet products we made, and increase of 14.1% in sales volume during fiscal 2022 compared to fiscal 2021.

We launched our intelligent pet products in March 2018, which include App-controlled pet feeders, pet water fountains, and smart pet toys. Comparing with other products, intelligent pet products typically have higher selling price. As part of our strategic changes, we have shifted our focus and resources from traditional pet products to new, smart, and high value innovative smart pet products. We have seen significant increase of sales during fiscal year 2022 and are expected the sales of intelligent pet products will continue to be one of the primary sources of revenue in the near future.

Climbing hooks and others

Revenue from climbing hooks and others increased by approximately \$0.4 million from approximately \$1.3 million in fiscal 2021 to approximately \$1.8 million in fiscal 2022. The increase was mainly due to a 25.7% increase in sales volume, and a slight increase of the average selling price of \$0.1 per unit for fiscal 2022 as compared to fiscal 2021. We expect the sales for the climbing hooks and gears will continue to increase after the pandemic due to the growth trend of participating the outdoors activities both domestically and globally.

Dyeing services

During fiscal 2021, we started to provide ribbon dyeing service to customers. We utilize our manufacturing capability and color dyeing technology to provide dyeing solutions to customers and apply dyes or pigments on ribbons made of textile materials such as fibers, yarns and fabrics to achieve customer desired color fastness and quality. We recognize revenue at the point when dyeing solutions and related services are rendered, products after dyeing are delivered and accepted by the customers. We earned service fees of \$342,561 and \$817,145 in fiscal 2022 and 2021, respectively

Sales to related parties

During the year ended June 30, 2019, we acquired 10% of the ownership interest in Dogness Network Technology Co., Ltd (“Dogness Network”), for the purpose of working together to develop new products and new technologies in smart pet tech area.

The legal representative of Dogness Technology is Junqiang Chen, the relative of Mr. Silong Chen.

We sold certain intelligent pet products to Dogness Network and Dogness Technology, and accordingly reported related party sales of \$2,212,579 and \$1,207,686, which accounted for 8.2% and 5.0% of our total revenue in fiscal 2022 and 2021, respectively.

Cost of revenue associated with the sales to these two related parties amounted to \$1,301,180 and \$663,742 for the in fiscal 2022 and 2021, respectively.

Revenue by Geographic Area

The breakdown of our revenue by geographic areas is as follows:

| Country and Region | For the Years Ended June 30, | | | | | |
|---|------------------------------|--------------------|---------------------|--------------------|---------------------|--------------|
| | 2022 | | 2021 | | Changes | |
| | Amount | % of total Revenue | Amount | % of total Revenue | Amount | % |
| Mainland China | \$12,552,874 | 46.3% | \$13,692,868 | 56.3% | \$(1,139,994) | (8.3)% |
| United States | 7,980,436 | 29.6% | 6,028,326 | 24.7% | 1,952,110 | 32.4% |
| Europe | 1,770,052 | 6.5% | 1,653,923 | 6.8% | 116,129 | 7.0% |
| Japan and other Asian countries and regions | 3,009,931 | 11.1% | 1,302,967 | 5.4% | 1,706,964 | 131.0% |
| Australia | 579,677 | 2.1% | 392,985 | 1.6% | 186,692 | 47.5% |
| Canada | 1,168,689 | 4.3% | 1,180,631 | 4.9% | (11,942) | (1.0)% |
| Central and South America | 33,538 | 0.1% | 68,421 | 0.3% | (34,883) | (51.0)% |
| Total | <u>\$27,095,197</u> | <u>100%</u> | <u>\$24,320,121</u> | <u>100.0%</u> | <u>\$ 2,775,076</u> | <u>11.4%</u> |

The breakdown of sales by products and services categories in international markets is as follows:

International sales

| Products and services type | For the Years ended June 30, | | | | | |
|----------------------------|------------------------------|--------------------|---------------------|--------------------|---------------------|--------------|
| | 2022 | | 2021 | | Changes | |
| | Amount | % of total Revenue | Amount | % of total Revenue | Amount | % |
| Traditional pet products | \$ 6,187,697 | 42.5% | \$ 6,742,503 | 63.4% | \$ (554,806) | (8.2)% |
| Intelligent pet products | 7,538,259 | 51.9% | 3,173,393 | 29.9% | 4,364,866 | 137.5% |
| Climbing hooks and others | 816,367 | 5.6% | 711,357 | 6.7% | 105,010 | 14.8% |
| Total international sales | <u>\$14,542,323</u> | <u>100.0%</u> | <u>\$10,627,253</u> | <u>100.0%</u> | <u>\$ 3,915,070</u> | <u>36.8%</u> |

Our total sales in international markets increased by approximately \$3.9 million or 36.8% from approximately \$10.6 million in fiscal 2021 to approximately \$14.5 million in fiscal year 2022. We have seen sharp increase of consumer demand in U.S., Japan and other Asian countries because of the stimulus plan and the strong recovery of the economy. Our sales to U.S. market increased by approximately \$2.0 million or 32.4% to approximately \$8.0 million in fiscal 2022 from approximately \$6.0 million for the fiscal 2021. Our sales to Japan and other Asian countries and regions market increased by approximately \$1.7 million or 131.0% to approximately \$3.0 million for fiscal 2022 from approximately \$1.3 million for fiscal 2021. However, due to the ongoing negative impact of the outbreak and spread of COVID-19 around the world, we still experienced weak market demand and received less sales orders from other international customers.

In terms of our international sales by product type and mix, sales of intelligent pet products and climbing hooks increased by 137.5% and 14.8%, respectively, in fiscal 2022 as compared to fiscal 2021. However, our sales of our traditional pet products decreased by 8.2%, in fiscal 2022 as compared to fiscal 2021.

In fiscal 2021, we have started working with large retail chains in the US and Canada for the distribution of smart pet products under our own brand rather than just serving as an OEM supplier. In addition, we started expanding our sales on online shopping platforms, such as Amazon and Chewy to access more potential customers in a safely and timely manner. We expect that the revenue to be generated from these efforts could mitigate, at least in part, offset the decreased OEM sales in the United States and Canada and the mitigate the impact of the COVID-19. We also expect that the newly developed intelligent pet products will continue become the leading revenue source for our international sales.

The breakdown of sales by products and services categories in China's domestic market is as follows:

Domestic sales

| Products and services type | For the Years ended June 30, | | | | | |
|----------------------------|------------------------------|--------------------|----------------------|--------------------|----------------------|---------------|
| | 2022 | | 2021 | | Changes | |
| | Amount | % of total revenue | Amount | % of total revenue | Amount | % |
| Traditional pet products | \$ 5,245,462 | 41.8% | \$ 7,588,989 | 55.4% | \$(2,343,527) | (30.9)% |
| Intelligent pet products | 5,953,817 | 47.5% | 4,627,677 | 33.8% | 1,326,140 | 28.7% |
| Climbing hooks and others | 944,974 | 7.5% | 629,329 | 4.6% | 315,645 | 50.2% |
| Dyeing services | 342,561 | 2.7% | 817,145 | 6.0% | (474,584) | (58.1)% |
| Other services | 66,060 | 0.5% | 29,728 | 0.2% | 36,332 | 122.2% |
| Total domestic sales | <u>\$ 12,552,874</u> | <u>100.0%</u> | <u>\$ 13,692,868</u> | <u>100.0%</u> | <u>\$(1,139,994)</u> | <u>(8.3)%</u> |

Our domestic sales decreased by approximately \$1.1 million or 8.3% from approximately \$13.7 million in fiscal 2021 to approximately \$12.6 million in fiscal 2022. The decrease was mainly due to decreased revenue from traditional pet products.

With the booming of pet culture in China, more and more young consumers have become pet owners in Mainland China. There are growing demands for smart pet products, including App-controlled smart pet food feeders, pet water fountains, pet tracking devices and smart pet toys. In addition, the shopping channels are diversified due to the rapid change of technology and lifestyle. The younger generations are more tech savvy and more willing to purchase products from popular online shopping sites, including Amazon, Chewy, JD, Tmall and Taobao, and from live streaming sales platforms hosted by influencers. Therefore, during fiscal 2022, we increased our marketing activities and sales efforts in domestic market, especially on those online shopping sites and channels. As a result, our domestic sales of intelligent pet products increased approximately \$1.3 million or 28.7% in fiscal 2022 as compared to fiscal 2021.

On the other hand, due to our strategic changes, we have shifted our focus and resource from traditional pet products to intelligent pet products, our domestic sales of traditional pet products decreased approximately \$2.3 million or 30.9% in fiscal 2022 as compared to fiscal 2021.

Cost of revenues

Cost of revenues decreased by approximately \$1.8 million, or 11.8%, from approximately \$15.2 million in fiscal 2021 to approximately \$17.0 million in fiscal 2022. As a percentage of revenues, the cost of goods sold slightly increased by approximately 0.2 percentage points to 62.6% in fiscal 2022 from 62.4% in fiscal 2021. We expect to continue to upgrade our production lines for both traditional and intelligent pet products to improve the productivity and lower the production costs.

Gross profit

Our gross profit increased by approximately \$1.0 million or 10.7%, to approximately \$10.1 million in fiscal 2022 from approximately \$9.2 million in fiscal 2021 primarily attributable to the increased sales volume of our intelligent pet products which have much higher gross profit than our traditional pet products. Overall gross profit margin was 37.4%, a decrease of 0.2 percentage points, as compared to 37.6% in fiscal 2021.

Gross profit by products and services type

The breakdown of gross profit by products and services categories is as follows:

| Products and services category | For the Year ended June 30, | | | | | |
|--------------------------------|-----------------------------|----------------|--------------------|----------------|-------------------|-----------------------|
| | 2022 | | 2021 | | Changes | |
| | Amount | Gross profit % | Amount | Gross profit % | Amount | Gross profit Pct. Pt. |
| Traditional pet products | \$ 3,670,566 | 32.1% | \$ 4,738,159 | 33.1% | \$(1,067,593) | (1.0) pct. |
| Intelligent pet products | 5,909,099 | 43.8% | 3,997,768 | 51.2% | 1,911,331 | (7.4) pct. |
| Climbing hooks and others | 535,758 | 30.4% | 423,143 | 31.6% | 112,615 | (1.2) pct. |
| | <u>10,115,423</u> | <u>37.9%</u> | <u>9,159,070</u> | <u>39.0%</u> | <u>956,353</u> | <u>(1.1) pct.</u> |
| Services | | | | | | |
| Dyeing services | (35,272) | (10.3)% | (23,957) | (2.9)% | (11,315) | (7.4) pct. |
| Other services | 58,914 | 89.2% | 20,100 | 67.6% | 38,814 | (21.6) pct. |
| Total | <u>\$10,139,065</u> | <u>37.4%</u> | <u>\$9,155,213</u> | <u>37.6%</u> | <u>\$ 983,852</u> | <u>(0.2) pct.</u> |

Gross profit for traditional pet products decreased by approximately \$1.1 million in fiscal 2022 as compared to fiscal 2021. Gross profit margin decreased by 1.0 percentage points from 33.1% in fiscal 2021 to 32.1% in fiscal 2022, mainly because we lowered the average selling price in fiscal 2022.

Gross profit for intelligent pet products increased by approximately \$1.9 million from approximately \$4.0 million in fiscal 2021 to approximately \$5.9 million in fiscal 2022. Gross profit margin decreased by 7.4 percentage point from 51.2% in fiscal 2021 to 43.8% in fiscal 2022, mainly driven by increased average unit cost of intelligent pet products due to improved manufacturing process.

Gross profit for climbing hooks and others increased by approximately \$0.1 million from approximately \$0.4 million in fiscal 2021 to \$0.5 million in fiscal 2022, mainly driven by 25.7% increase in sales volume. Overall gross margin for climbing hook decreased by 1.2 percentage points from 31.6% in fiscal 2021 to 30.4% in fiscal 2022.

Expenses

| | For the Years ended June 30, | | | | | |
|-------------------------------------|------------------------------|---------------------|-----------|---------------------|-----------|-------|
| | 2022 | | 2021 | | Changes | |
| | Amount | % of total Expenses | Amount | % of total Expenses | Amount | % |
| Selling expenses | 2,077,174 | 20.6% | 1,815,771 | 24.9% | 261,403 | 14.4% |
| General and administrative expenses | 6,742,687 | 67.0% | 4,941,036 | 67.7% | 1,801,651 | 36.5% |
| Research and development expenses | 917,227 | 9.1% | 540,613 | 7.4% | 376,614 | 69.7% |
| Loss from disposal of fixed assets | 327,921 | 3.3 | - | -% | 327,921 | -% |
| Total operating expenses | 10,065,009 | 100% | 7,297,420 | 100% | 2,767,589 | 37.9% |

Selling expenses. Selling expenses primarily included expenses incurred for participating in various trade shows to promote product sales, salary and sales commission expenses paid to the Company's sales personnel, and shipping and delivery expenses. Selling expenses increased by \$0.3 million, or 14.4% from approximately \$1.8 million in fiscal 2021 to approximately \$2.1 million in fiscal 2022. The increase in selling expense was primarily due to increased Amazon online sales promotion fee approximately \$0.2 million. As a percentage of sales, our selling expenses were 7.7% and 7.5% of our total revenues in fiscal 2022 and 2021, respectively.

General and administrative expenses. Our general and administrative expenses primarily include employee salary, welfare and insurance expenses, depreciation and bad debt expenses as well as consulting expense. General and administrative expenses increased by approximately \$1.8 million or 36.5% from approximately \$4.9 million in fiscal 2021 to approximately \$6.7 million in fiscal 2022. The increase was mainly due to increased professional consultant expense approximately \$0.5 million, decoration and maintenance fee of approximately \$0.5 million, increased depreciation and amortization expenses of \$0.4 million. As a percentage of sales, our general and administrative expenses were 24.9% and 20.3% of our total revenues in fiscal 2022 and 2021, respectively.

Research and development expenses. Our research and development expenses increased by approximately \$0.4 million or 69.7% from approximately \$0.5 million in fiscal 2021 to \$0.9 million in fiscal 2022. As a percentage of sales, our research and development expenses were 3.4% and 2.2% of our total revenues in fiscal 2022 and 2021, respectively. The increase was due to more research activities in fiscal 2022. We expect R&D expenses to continue to increase, as we continue to expand our research and development activities to increase the use of environmentally-friendly materials, and develop more new high-tech products to meet customer demands.

Disposition of fixed assets. We disposed some old fashioned or outdated molding machinery and equipment in fiscal 2022, which resulted in approximately \$0.3 million loss from disposition of fixed assets in fiscal 2022.

Other income, net. Other income primarily included interest income or expenses, foreign exchange gain or loss, rental income from related parties, gain from disposition of a subsidiary and other income or expenses. In fiscal 2022, the Company had other income of approximately \$0.2 million as compared to approximately \$0.1 million in fiscal 2021. The increase was mainly attributable to an increase of approximately \$0.5 million in foreign exchange gain in fiscal 2022 as compared to fiscal 2021, offset by less miscellaneous other income in fiscal 2022 as compared to fiscal 2021.

Income tax benefit (expense). Income tax benefit was approximately \$2.8 million in fiscal 2022, compared to, income tax expense approximately \$0.6 million in fiscal 2021. The decrease was mainly due to the reversal of accrued tax liabilities in the total amount of approximately \$3.0 million relating to the tax liabilities accrued for the period from fiscal 2016 to fiscal 2018.

The Company may be subject to challenges from various PRC taxing authorities regarding the amounts of taxes due, although the Company's management believes the Company has paid or accrued for all taxes owed by the Company. As of June 30, 2022 and 2021, the Company had accrued (before adjustment) total income tax liabilities of approximately \$4.6 million and \$4.3 million, respectively. According to PRC taxation regulation and administrative practice and procedures, the statute of limitation on tax authority's audit or examination of previously filed tax returns expires three years from the date they were filed. The Company also obtained a written statement from the local tax authority that no additional taxes are due as of June 30, 2022. Based on these facts, the Company reversed the accrued tax liabilities in the total amount of approximately \$3.0 million (or RMB20,424,826) relating to the tax liabilities accrued for the period from fiscal 2016 to fiscal 2018, resulting in the decrease of accrued income tax liabilities from approximately \$4.6 million to approximately \$1.5 million as of June 30, 2022. The Company continues to discuss with the local tax authority to try to settle the remaining tax liabilities as soon as practicable, mostly related to its unpaid income tax and business tax.

Due to uncertainties associated with the status of examinations, including the protocols of finalizing audits by the relevant tax authorities, there is a high degree of uncertainty regarding the future cash outflows associated with the interest and penalties on these unpaid tax balances. The final outcome of this tax uncertainty is dependent upon various matters including tax examinations, interpretation of tax laws or expiration of status of limitation.

Net income. Net income was approximately \$3.0 million in fiscal 2022, increase by approximately \$1.7 million from \$1.3 million in fiscal 2021. The increased net income was the result of increased income tax benefit offset by increased operating expenses as discussed above.

Other comprehensive income (loss). Foreign currency translation adjustments amounted to a loss of \$3,203,448 and a gain of \$4,879,315 in fiscal 2022 and 2021, respectively. The balance sheet amounts with the exception of equity at June 30, 2022 were translated at 6.6981 RMB to 1.00 USD as compared to 6.4566 RMB to 1.00 USD at June 30, 2021. The equity accounts were stated at their historical rate. The average translation rates applied to the income statements accounts for the years ended June 30, 2022 and 2021 were 6.4554 RMB to 1.00 USD and 6.6221 RMB to 1.00 USD, respectively. The change in the value of the 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. The impact attributable to changes in revenue and expenses due to foreign currency translation are summarized as follows.

| | For the Year ended June 30, 2022 | For the Year ended June 30, 2021 |
|------------------------------|---|---|
| Impact on revenue | \$ 979,555 | \$ (628,136) |
| Impact on operating expenses | \$ 363,874 | \$ (188,476) |
| Impact on net income | \$ 109,040 | \$ (33,551) |

For the year ended June 30, 2022, if using the RMB6.6981 to \$1.00 (foreign exchange rate as of June 30, 2022), rather than the average exchange rate for the year ended June 30, 2022, to translate our revenue, operating expense and net income, our reported revenue, operation expense and net income would decrease by \$979,555, \$363,874 and negative \$109,040, respectively.

For the year ended June 30, 2021, if using the RMB6.4566 to \$1.00 (foreign exchange rate as of June 30, 2021), rather than the average exchange rate for the year ended June 30, 2021, to translate our revenue, operating expense and net income, our reported revenue, operation expense and net income would be increased by \$628,316, \$188,476 and \$33,551, respectively.

Liquidity and Capital Resources

The following table sets forth summary of our cash flows for the years indicated:

| | For the Years Ended June 30, | | |
|---|-------------------------------------|---------------|--------------|
| | 2023 | 2022 | 2021 |
| Net cash (used in) provided by operating activities | \$ (8,902,265) | \$ 6,160,458 | \$ 3,752,232 |
| Net cash used in investing activities | (1,455,354) | (14,741,379) | (11,245,631) |
| Net cash (used in) provided by financing activities | (1,066,364) | 20,868,786 | 11,051,571 |
| Effect of exchange rate change on cash | (698,581) | (617,747) | 110,709 |
| Net (decrease) increase in cash | (12,122,564) | 11,670,118 | 3,668,881 |
| Cash and restricted cash, beginning of year | 16,605,872 | 4,935,754 | 1,266,873 |
| Cash and restricted cash, end of year | \$ 4,483,308 | \$ 16,605,872 | \$ 4,935,754 |

Operating Activities

Net cash used in operating activities was approximately \$8.9 million in fiscal 2023, including net loss of approximately \$7.5 million, adjusted for non-cash items for approximately \$5.3 million (including depreciation and amortization of approximately \$3.3 million, amortization of right of use lease assets of approximately \$1.0 million, share based compensation for services of approximately \$1.2 million), and adjustments for changes in working capital approximately \$6.8 million. The adjustments for changes in working capital mainly include decrease of approximately \$2.4 million in lease liabilities, and increase of approximately \$3.1 million in prepayments and other assets.

Net cash provided by operating activities was approximately \$6.2 million in fiscal 2022, including net income of approximately \$3.0 million, adjusted for non-cash items for approximately \$4.1 million (including depreciation and amortization of approximately \$3.5 million, amortization of right of use lease assets of approximately \$0.4 million), and adjustments for changes in working capital approximately \$0.9 million. The adjustments for changes in working capital mainly include decrease of approximately \$2.8 million in tax payable primary due to income tax reserved, offset by decrease of approximately \$1.2 million in prepayments and other assets.

Net cash provided by operating activities was approximately \$3.7 million in fiscal 2021, including net income of \$1.3 million, adjusted for non-cash items for approximately \$3.3 million (including depreciation and amortization of \$3.1 million, amortization of ROU assets of \$0.4 million, and stock-based compensation of \$0.2 million and deferred tax expense negative \$0.5 million) and adjustments for changes in working capital around negative \$0.8 million. The adjustments for changes in working capital mainly included increase of \$1.2 million in inventories due to increased sales orders, decreased of 0.6 million in accrued expenses and other liabilities and increased of \$0.5 million in accounts receivable, offset by increase of \$1.3 million in taxes payable.

Investing Activities

Net cash used in investing activities was approximately \$1.5 million in fiscal 2023 primarily due to the spending of approximately \$1.5 million on our construction projects for improvement of our manufacturing facilities and warehouse and purchased machinery and equipment.

Net cash used in investing activities was approximately \$14.7 million in fiscal 2022 primarily due to the spending of approximately \$14.2 million on our construction projects for improvement of our manufacturing facilities and warehouse and the purchase of approximately \$1.1 million machinery and equipment. On the other hand, we decreased short term investment of approximately \$0.5 million when we collected the investment upon maturity of these interest-bearing wealth management financial products and used such cash to invest on our construction projects.

Net cash used in investing activities was approximately \$11.2 million in fiscal 2021 primarily due to the purpose of approximately \$0.8 million machinery and equipment to improve our production capacity and the spending of approximately \$13.7 million on our construction-in-progress projects for improvement of our manufacturing facilities and warehouse. We also paid additional capital contributions of approximately \$0.2 million to one of our long-term equity investees, offset by decreased purchase in short-term investment of \$3.3 million.

Financing Activities

Net cash used in financing activities was approximately \$1.1 million in fiscal 2023. During fiscal 2023, the net repayment bank loans was of approximately \$1.0 million.

Net cash provided by financing activities was approximately \$20.9 million in fiscal 2022. During fiscal 2022, we had net proceeds from private placement of approximately \$19.1 million and approximately \$4.6 million proceeds from exercise of warrants and options, offset by net repayment related parties loans of approximately \$1.9 million and bank loans of approximately \$0.9 million.

Net cash provided by financing activities was approximately \$11.1 million in fiscal 2021. During fiscal 2021, we had net proceeds from private placements of approximately \$6.6 million, we net proceeds from bank loan of approximately \$2.4 million and net proceeds from related party of approximately \$1.9 million. We also received capital contribution of approximately \$0.1 million from non-controlling shareholders in Dogness Culture.

Commitments and Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of June 30, 2023:

| Contractual Obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|---|----------------------|-----------------------------|---------------------|---------------------|------------------------------|
| Operating lease commitment (1) | \$ 19,054,485 | \$ 2,913,507 | \$ 937,036 | \$ 2,263,406 | \$ 12,940,536 |
| Repayment of bank loan (2) | 5,442,467 | 3,846,918 | 745,797 | 842,687 | 7,065 |
| Capital injection obligation (3) | 2,119,523 | - | 2,119,523 | - | - |
| Capital expenditures on Dongguan Jiasheng (4) | 254,070 | 254,070 | - | - | - |
| Total | \$ 26,870,545 | \$ 7,014,495 | \$ 3,802,356 | \$ 3,106,093 | \$ 12,947,601 |

(1) The Company's subsidiary Dogness Jiasheng leases manufacturing facilities and administration office spaces under multiple operating lease agreements. We adopted ASU No. 2016-02—Leases (Topic 842) on July 1, 2019, using a modified retrospective transition method. This transition approach provides a method for recording existing leases only at the date of adoption and does not require previously reported balances to be adjusted. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification. Adoption of the new standard resulted in the recording of lease assets and lease liabilities.

(2) As of June 30, 2023, the Company had a loan balance of RMB21,464,235 (\$4,555,467) borrowed from Dongguan Rural Commercial Bank. The loans have terms of eight years with a maturity date on July 16, 2028 with effective interest rate at 6.15% and 6.55% per annum.

As of June 30, 2023, the Company had a loan balance of \$887,000 borrowed from Cathay Bank. The Company has extended the repayment date to February 2024.

(3) The Company is also obligated to make registered capital contributions to its subsidiary Zhangzhou Meijia Metal Product Ltd. ("Meijia") to meet the requirement of State Administration for Industry and Commerce ("SAIC") of China. As of June 30, 2023, future registered capital contribution commitments for Meijia was RMB15.37 million (\$2.1 million), respectively. As of the date of this report, pursuant to the articles of incorporation of Meijia, the Company is obligated to contribute the remaining RMB15.37 million (\$2.1 million) capital investment into Meijia before December 30, 2025 whenever the Company has available funds.

(4) Dongguan Jiasheng had a construction project which expanded from the original plan of building a warehouse, to build new manufacturing and operating facilities, which include warehouse, workshops, office building, security gate, employee apartment building, electrical transformer station and exhibition hall, etc. The total budget is approximately RMB263.5 million (\$36.3 million). As of June 30, 2022, the Company had completed this project and transferred all of the related CIP to fixed assets. As of June 30, 2023, the Company has made total payments of approximately RMB261.7 million (\$36.1 million) in connection to this project, which resulted in future minimum capital expenditure payments of approximately RMB1.8 million (\$0.3 million), the Company plan to pay remaining payments in twelve months after June 30, 2023.

Loan Facilities

As of June 30, 2023 and 2022, the details of all our short-term bank loans are as follows:

| | <u>As of June 30, 2023</u> | <u>As of June 30, 2022</u> |
|----------------------------------|--------------------------------|--------------------------------|
| Cathay Bank | | |
| Effective interest rate at 4.25% | \$ 887,000 | \$ 564,000 |
| Total | <u>\$ 887,000</u> | <u>\$ 564,000</u> |

On February 6, 2020, one of the Company's U.S. subsidiaries, Dogness Group, obtained a line of credit from Cathay Bank, pursuant to which Dogness Group has the availability to borrow a maximum \$1.2 million out of this line of credit for two years at the U.S. prime rate. The loan is guaranteed by the fixed assets of Dogness Group. The purpose of this loan is to expand the business operation and increase the marketing and sales activities in the United States and other international markets.

As of June 30, 2023, the outstanding balance was \$887,000. The Company has extended the repayment date to February 2024 from the original due date of February 2022. As of the date of this report, the Company made total payments of \$828,416.

Long-term loan consisted of the following:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|--|--------------------------------------|--------------------------------------|
| Dongguan Rural Commercial Bank | | |
| Effective interest rate at 6.15% and 6.55% | \$ 4,555,467 | \$ 6,320,534 |
| Less: current portion of long-term loans | (2,959,918) | (1,386,160) |
| Long-term loans | <u>\$ 1,595,549</u> | <u>\$ 4,934,374</u> |

On July 17, 2020, the Company entered into multiple loan agreements with Dongguan Rural Commercial Bank to borrow an aggregate of \$6.9 million (RMB50 million) of loans to support the working capital needs and the construction of the Company's current CIP projects. The loans have tenure varying between three and eight years. The loans bear a variable interest rate based on the prime interest rate set by the People's Bank of China at the time of borrowing, plus 1.405 basis points. The Company pledged the land use right of approximately \$1.8 million and buildings of approximately \$4.8 million from Meijia as collateral to secure total loans of \$4.1 million (RMB30 million). Mr. Silong Chen, the CEO of the Company, pledged personal property as collateral to secure the remaining loans of \$2.8 million (RMB20 million). Dongguan Dogness, Meijia and Mr. Silong Chen also provided guarantee for the loans. As of June 30, 2023, the outstanding balance was \$4,555,467. The Company further repaid \$2,702,960 (RMB19,600,873) and drew down \$2,620,100 (RMB19,000,000) subsequent to the year end.

Impact of Inflation

The Company's business operations are affected by the inflation post pandemic. Inflation can have a significant impact on a company's financial performance. Rising prices for raw materials, labor, and other costs can increase a company's cost of goods sold, leading to lower gross margins and profitability. Additionally, inflation can increase the prices of products, which can lead to a decrease in demand for those products, ultimately affecting sales volume. Inflation can also impact a company's expenses, such as salaries and benefits, rent, and utilities. As prices rise, these expenses can increase, leading to higher general and administrative expenses. Finally, inflation can impact a company's debt service, as interest rates may rise, leading to higher borrowing costs.

Impact of Foreign Currency Fluctuations

Although all our raw material and production cost and expense were denominated in RMB, almost all our revenues were generated under agreements denominated in U.S. dollars. Export sales represent 64.0% and 53.7% of our revenue for the years ended June 30, 2023 and 2022, respectively. Moreover, for the next few years we expect that the substantial majority of our revenues from international sales will continue to be denominated in U.S. dollars. Having the substantial portion of our revenues contracts denominated in U.S. dollars while having most of our raw material and production costs and expenses denominated in RMB exposes us to risk, associated with exchange rate fluctuations vis-à-vis the U.S. dollar.

A devaluation of the RMB in relation to the U.S. dollar has the effect of reducing the U.S. dollar amount of our expenses or payables that are payable in RMB. Conversely, any appreciation of the RMB in relation to the U.S. dollar has the effect of increasing the U.S. dollar value of our RMB raw material and productions and expenses, which would have a negative impact on our profit margins. In fiscal 2023, the value of the RMB appreciated in relation to the U.S. dollar by approximately 8.26%. In fiscal 2022, the value of the RMB depreciated in relation to the U.S. dollar by 3.70%. In fiscal 2021, the value of the RMB appreciated in relation to the U.S. dollar by approximately 8.70%. Because exchange rates between the U.S. dollar and the RMB fluctuate continuously, such fluctuations have an impact on our results and period-to-period comparisons of our results.

| | <u>RMB against the USD</u> <u>(%)</u> |
|------|--|
| 2023 | (8.26)% |
| 2022 | (3.70)% |
| 2021 | 8.70% |

We will continue to monitor exposure to currency fluctuations. We have not engaged in any currency hedging activities in order to reduce our exposure to currency fluctuations.

Off-balance Sheet Commitments and Arrangements

There were no off-balance sheet arrangements for the years ended June 30, 2023 and 2022 that have or that in the opinion of management are likely to have, a current or future material effect on our financial condition or results of operations.

Critical Accounting Policies

We prepare our financial statements in conformity with accounting principles generally accepted by the United States of America (“U.S. GAAP”), which requires us to make judgments, estimates and assumptions that affect our reported amount of assets, liabilities, revenue, costs and expenses, and any related disclosures. Although there were no material changes made to the accounting estimates and assumptions in the past three years, we continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates.

We believe that the following accounting policies involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates. Accordingly, these are the policies we believe are the most critical to understanding and evaluating our consolidated financial condition and results of operations.

Use of Estimates

In preparing the consolidated financial statements in conformity with US GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information as of the date of the consolidated financial statements. Significant estimates required to be made by management include, but are not limited to, the valuation of accounts receivable, inventories, advances to suppliers, useful lives of property, plant, right-of-use assets (including lease liabilities) and equipment, intangible assets, the recoverability of long-lived assets, provision necessary for contingent liabilities, and realization of deferred tax assets. Actual results could differ from those estimates.

Revenue recognition

On July 1, 2018, the Company adopted ASC 606 Revenue from Contracts with Customers, using the modified retrospective approach. ASC 606 establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

To determine revenue recognition for contracts with customers, the Company performs the following five steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocate the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) the Company satisfies the performance obligation.

Revenue is recognized when obligations under the terms of a contract with the Company’s customers are satisfied. Satisfaction of contract terms occur with the transfer of title of the Company’s products to the customers. Net sale is measured as the amount of consideration the Company expects to receive in exchange for transferring the goods to the wholesaler and retailers.

The amount of consideration the Company expects to receive consists of the sales price adjusted for any incentives if applicable. Such incentives do not represent a standalone value and are accounted for as a reduction of revenue in accordance with ASC 606. For the years ended June 30, 2023, 2022 and 2021, the Company did not provide any sales incentives to its customers.

Incidental promotional items that are immaterial in the context of the contract are recognized as expense. Fees charged to customers for shipping and handling are included in net sales and the related costs incurred by the Company are included in selling expenses. In applying judgment, the Company considered customer expectations of performance, materiality and the core principles of ASC Topic 606. The Company's performance obligations are generally transferred to the customer at a point in time. The Company's contracts with customers generally do not include any variable consideration.

The Company's revenue is primarily generated from the sales of pet products, including leashes, accessories, collars, harnesses and intelligent smart pet products, to wholesalers and retailers. Revenue is recognized when the merchandise is delivered, title is transferred and the Company's performance obligations to fulfill the customer contracts have been satisfied. Revenue is reported net of all value added taxes ("VAT"). The Company does not routinely permit customers to return products and historically, customer returns have been immaterial.

Contract Assets and Liabilities

Payment terms are established on the Company's pre-established credit requirements based upon an evaluation of customers' credit quality. Contact assets are recognized for in related accounts receivable. Contract liabilities are recognized for contracts where payment has been received in advance of delivery. The contract liability balance can vary significantly depending on the timing of when an order is placed and when shipment or delivery occurs.

As of June 30, 2023 and 2022, other than accounts receivable and advances from customers, the Company had no other material contract assets, contract liabilities or deferred contract costs recorded on its consolidated balance sheet. Costs of fulfilling customers' purchase orders, such as shipping, handling and delivery, which occur prior to the transfer of control, are recognized in selling, general and administrative expense when incurred.

Disaggregation of Revenues

The Company disaggregates its revenue from contracts by product types and geographic areas, as the Company believes it best depicts how the nature, amount, timing and uncertainty of the revenue and cash flows are affected by economic factors. The Company's disaggregation of revenues for the six months ended December 31, 2022 and 2021 are disclosed in notes of the unaudited consolidated financial statements.

Accounts Receivable, net

Accounts receivable are presented net of allowance for doubtful accounts. The Company usually determines the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which requires the Company to measure and recognize expected credit losses for financial assets held and not accounted for at fair value through net income. The Company adopted this guidance effective January 1, 2023. The Company establishes a provision for doubtful receivables based on management's best estimates of specific losses on individual exposures, as well as a provision on historical trends of collections. The provision is recorded against accounts receivables balances, with a corresponding charge recorded in the consolidated statements of income and comprehensive income. Delinquent account balances are written-off against the allowance for doubtful accounts after management has determined that the likelihood of collection is not probable.

Inventories, net

Inventories are stated at net realizable value using the weighted average method. Costs include the cost of raw materials, freight, direct labor and related production overhead. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories.

Net realizable value is the estimated selling price in the normal course of business less any costs to complete and sell products. The Company evaluates inventories on a quarterly basis for its net realizable value adjustments, and reduces the carrying value of those inventories that are obsolete or in excess of the forecasted usage to their estimated net realizable value based on various factors including aging and future demand of each type of inventories.

Leases

The Company is the lessee in a lease contract when the Company obtains the right to use the asset. Operating leases are included in the line items right-of-use asset, lease liabilities, current, and lease liabilities, long-term in the consolidated balance sheet.

Right-of-use (“ROU”) asset represents the Company’s right to use an underlying asset for the lease term and lease obligations represent the Company’s obligations to make lease payments arising from the lease, both of which are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Leases with a lease term of 12 months or less at inception are not recorded on the consolidated balance sheet and are expensed on a straight-line basis over the lease term in the consolidated statement of operations and comprehensive loss. The Company determines the lease term by agreement with lessor. As the Company’s lease does not provide implicit interest rate, the Company uses the Company’s incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Refer to Note 7 for further discussion.

Income Tax

The Company accounts for current income taxes in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized when temporary differences exist between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period including the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

An uncertain tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. As of June 30, 2023, the years from fiscal 2021 to fiscal 2023 for the Company’s mainland China subsidiaries remain open for statutory examination by PRC Tax authorities. For the Company’s Hong Kong subsidiaries, and the U.S subsidiary, all tax years remain open for statutory examination by relevant tax authorities.

Recently Issued Accounting Pronouncements

The Company considers the applicability and impact of all accounting standards updates (“ASUs”). Management periodically reviews new accounting standards that are issued.

In December 2019, the FASB issued ASU No. 2019-12, “Income Taxes” (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”). ASU 2019-12 will simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The adoption of ASU 2019-12 does not have a material impact on its consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) (“ASU 2020-01”), which is intended to clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for the Company beginning January 1, 2021. The adoption of ASU 2019-12 does not have a material impact on its consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-08, “Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers” (“ASU 2021-08”). This ASU requires entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The amendments improve comparability after the business combination by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. The amendments are effective for the Company beginning after December 15, 2023, and are applied prospectively to business combinations that occur after the effective date. The Company does not expect the adoption of ASU 2021-04 to have a material effect on the consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03 Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions. The update clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The update also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The update also requires certain additional disclosures for equity securities subject to contractual sale restrictions. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. As an emerging growth company, the standard is effective for the Company for the year ended December 31, 2025. The Company is in the process of evaluating the impact of the new guidance on its consolidated financial statements.

Except for the above-mentioned pronouncements, there are no new recent issued accounting standards that will have material impact on the consolidated financial statements

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Executive Officers and Directors

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

| Name | Age | Position Held |
|---------------|------------|--|
| Silong Chen | 41 | Chief Executive Officer and Director |
| Aihua Cao | 46 | Chief Financial Officer and Director |
| Qingshen Liu | 49 | Independent Director |
| Zhiqiang Shao | 48 | Independent Director (Audit Committee Chair) |
| Changqing Shi | 40 | Independent Director |

The business address of all such senior management and directors is Tongsha Industrial Estate, East District, Dongguan, Guangdong, People's Republic of China 523217.

Silong Chen, Chief Executive Officer
Director since 2017

Mr. Chen serves as our Chief Executive Officer and Chairman of our Board of Directors. Mr. Chen founded our Chinese subsidiary in 2003 and has more than 15 years of experience in the pet products industry. Mr. Chen created the brand Dogness in 2008. Since 2017, Mr. Chen has served as the executive director of the Guangdong Province Economic Research Institute. We have chosen Mr. Chen to serve as a director because of his expertise and experience in the pet supply industry.

Aihua Cao, Chief Financial Officer
Director since 2023

Ms. Cao serves as our Chief Financial Officer. Prior to this position, Ms. Cao served as the Finance and Accounting Manager of the Company since 2015. Ms. Cao has more than 32 years of experience in financing and accounting, and is specialized in financial system construction, financial investment, business analysis, tax planning, and cost control. Ms. Cao received her bachelor's degree from Hunan University of Finance and Economics in 1991. We have chosen Dr. Chen as our Chief Financial Officer because of her knowledge and experience with U.S. GAAP and SEC reporting and compliance requirements. We have chosen Dr. Chen to serve as a director because of her experience with financial matters and her knowledge of our company's operations.

Yunhao Chen, Chief Financial Officer (from 2019 to August 2023)
Director (from 2019 to August 2023)

Dr. Chen served as our Chief Financial Officer and a director from 2019 to August 2023. Prior to joining our company, Dr. Chen served as the CFO for a US company since 2014, where she directed and managed the company's financial reporting and accounting functions. With a Ph.D. in Accounting and an MBA from the University of Minnesota, and a BE degree from University of International Business and Economics of China, Dr. Chen has also been active in the academic area. From 2007 to 2014, Dr. Chen has been a faculty member at Florida International University and University of Miami. From 2011 till present, she has been teaching at Southern Medical University as a Visiting Professor (Healthcare MBA). We have chosen Dr. Chen as our Chief Financial Officer because of her knowledge and experience with U.S. GAAP and SEC reporting and compliance requirements. She holds a CPA license and has conducted analyses and research of a large amount of formal filings of SEC registrants, with focuses on financial disclosure, capital market anomaly, business valuation, internal control and auditing, corporate tax avoidance, and earnings-returns relation. Dr. Chen also published research results in both accounting and finance journals such as Journal of American Tax Association, Journal of Information System, and Financial Management. We chose Dr. Chen to serve as a director because of her experience with financial matters and her knowledge of our company's operations. Dr. Chen has resigned as the Company's Chief Financial Officer effective August 1, 2023.

Qingshen Liu
Director since 2018

Dr. Liu has been an independent director since 2018. He is an associate professor in the Faculty of Animal Science at South China Agriculture University. He has many years of experience in teaching, research, and social services and focuses on commercial animal breeding, nutrition, and biotechnology. Dr. Liu's vast industry involvement includes senior roles at the Chinese Association of Animal Science and Veterinary Medicine, the Guangdong Zoological Society, the Guangdong Association of Animal Husbandry and Veterinary Medicine, the Guangdong Pet Industry Technology Innovation Alliance, the Guangdong Vocational Education Strategic Alliance for the pet industry, and the China Native Dog Protection Association. He is also a consultant for the China Pet Health Nutrition Association, the Dongguan Pet Industry Association, and the Guangdong Province Science and Technology Project. He is an editor of Kennel Technology and the Guangdong Journal of Animal and Veterinary Science. Dr. Qingshen Liu holds a Ph.D in animal nutrition and feed science from South China Agricultural University. We have appointed Dr. Liu because of his expertise in animal science and knowledge of research, product development and education.

Zhiqiang Shao
Director since 2017

Mr. Shao has been an independent director since 2017. Since May 2015, Mr. Shao has been the Vice Risk Control Officer in Paisheng Technology Group Co., Ltd, where he is responsible for implementing the company's corporate risk control strategy. From March 2010 through April 2015, Mr. Shao was the Financial and Risk Control Director at Dongguan Xiangbang Credit Guarantee Ltd. From November 2006 through February 2010, Mr. Shao was the Financial and Risk Control Manager at China Zhongkezhi Guarantee Group Co., Ltd, Dongguan Branch. From July 1996 to October 2006, Mr. Shao worked as the Financial Manager for Huiyang Wanli Plastic Products Co., Ltd/Dongguan Wanjia Toys Co., Ltd. In July 1996, he graduated from a three-year college in Accounting, Shanghai Lixin Institute of Accounting and Finance (formerly Shanghai Lixin College of Accounting), and earned his Bachelor in Financial Management from South China Normal University in May 2017. We believe Mr. Shao's experience with accounting and risk management make him a qualified member of our Board of Directors.

Changqing Shi
Director since 2020

Mr. Shi has been an independent director since April 2020. Since September 2019, Mr. Shi has been the Deputy General Manager of Dongguan Newspaper Culture Communication Co., Ltd. From May 2018 through August 2019, he was Executive Dean of Duowei Training Institute. From April 2017 through April 2018, Mr. Shi was Vice Principal of Guangdong School of Science and Technology. From September 2016 through March 2017, he was Vice Principal of Dongguan Yuehua School. From May 2014 through August 2016, Mr. Shi was the Chief Counselor of the Dongguan Youth Leadership Program. Mr. Shi earned his B.A. from Yantai Normal University and is studying for a master's degree in cultural industry management from Peking University. We believe Mr. Shi is a qualified member of our Board of Directors due to his media experience and corporate governance experience, which we are hopeful will benefit Dogness' efforts to promote its products and brand and to further Dogness' efforts to grow as a public company.

Election of Officers

Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no familial relationships among any members of the executive officers.

B. Employment Agreements

In accordance with the PRC National Labor Law, which became effective in January 1995, and the PRC Labor Contract Law, which became effective in January 2008, as amended subsequently in 2012, employers must execute written labor contracts with full-time employees of the Chinese entity in order to establish an employment relationship.

In China, all employers must compensate their employees equal to at least the local minimum wage standards. Our employees are all entitled to receive payment of at least RMB 1,720 per month for full-time workers and RMB 16.4 per hour for part-time employees, with overtime calculated at 1.5 times normal rate for weekday overtime, 2 times normal rate for weekends and 3 times normal rate for holidays. Our employment agreements typically begin with a one month trial period.

All employers are required to establish a system for labor safety and sanitation, strictly abide by state rules and standards and provide employees with appropriate workplace safety training. In addition, employers in China are obliged to pay contributions to the social insurance plan and the housing fund plan for employees. Accordingly, all of our employees, including management, have executed their employment agreements. Our employment agreements with our executives provide the amount of each executive officer's salary and establish their eligibility to receive a bonus. We believe our labor relationships are good.

Our employment agreements with our executive officers generally provide for a salary to be paid monthly. The agreements also provide that executive officers are to work full time for our company and are entitled to all legal holidays as well as other paid leave in accordance with PRC laws and regulations and our internal work policies. The employment agreements also provide that we will pay for all mandatory social insurance programs for our executive officers in accordance with PRC regulations. In addition, our employment agreements with our executive officers prevent them from rendering services for our competitors for so long as they are employed.

Other than the salary, bonuses, equity grants and necessary social benefits required by the government, which are defined in the employment agreements, we currently do not provide other benefits to the officers. Our executive officers are not entitled to severance payments upon the termination of their employment agreement or following a change in control. We are not aware of any arrangement that may at a subsequent date, result in a change of control of our company.

We have not provided retirement benefits (other than a state pension scheme in which all of our employees in China participate) or severance or change of control benefits to our named executive officers.

Under Chinese law, we may terminate an employment agreement without penalty by providing the employee thirty days' prior written notice or one month's wages in lieu of notice if the employee is incompetent or remains incompetent after training or adjustment of the employee's position in other limited cases. If we wish to terminate an employment agreement in the absence of cause, then we are obligated to pay the employee one month's salary for each year we have employed the employee. We are, however, permitted to terminate an employee for cause without penalty to our company, where the employee has committed a crime or the employee's actions or inactions have resulted in a material adverse effect to us.

Silong Chen

On May 28, 2017, we entered a written employment agreement with Mr. Chen. Under the terms of Mr. Chen's employment agreement, he is entitled to base compensation of \$10,000 per month. Mr. Chen received options to purchase 360,000 Class A Common Shares for a purchase price of \$1.50 per share, which options will vest monthly at a rate of 10,000 per month for the next three years following the completion of our initial public offering, with the first tranche vesting one month after completion of the offering. On October 31, 2019, Mr. Chen voluntarily waived the remaining unvested 140,000; as a result, Mr. Chen holds a total of 220,000 vested options. Mr. Chen's employment agreement has no expiration date but may be terminated immediately for cause or at any time by either party upon presentation of 30 days' prior notice in the event he is unable to perform assigned tasks or the parties are unable to agree to changes to his employment agreement.

Aihua Cao

Effective August 16, 2023, we entered a written employment agreement with Ms. Cao to serve as our Chief Financial Officer. Under the terms of Ms. Cao's employment agreement, she was entitled to base compensation of \$42,000 per month. Ms. Cao's employment agreement has no expiration date but may be terminated at any time for any reason or for no reason, with or without cause, by either party upon presentation of 30 days' prior notice. The employment can be terminated immediately under certain circumstances specified under section 7 of the employment agreement.

Yunhao Chen(resigned since August 1, 2023)

Effective May 28, 2017, we entered a written employment agreement with Dr. Chen to serve as our Chief Financial Officer. Dr. Chen has resigned as the Company's Chief Financial Officer effective August 1, 2023 therefore the employment agreement was terminated as of the same date. Under the terms of Dr. Chen's employment agreement, she was entitled to base compensation of \$10,000 per month through December 31, 2017. Beginning in January 2018, Dr. Chen's salary increased to \$150,000 per year. Effective as of the closing of our initial public offering, Dr. Chen received options to purchase 120,000 Class A Common Shares for a purchase price of \$1.50 per share, which options vested monthly at a rate of 5,000 per month for the next two years following the completion of the offering, with the first tranche vesting one month after completion of the offering. All of such options have vested and have been exercised. Dr. Chen's employment agreement was for a term of two years initially and renewed in 2019 with no fixed term and may be terminated immediately for cause or at any time by either party upon presentation of 30 days' prior notice in the event she is unable to perform assigned tasks or the parties are unable to agree to changes to her employment agreement.

Director Compensation

The following section presents information regarding the compensation paid during fiscal 2023, 2022 and 2021 to members of our Board of Directors who are not also our employees (referred to herein as "Non-Employee Directors"). As of each of June 30, 2023, 2022 and 2021, we had five (5) directors. Other than Qingshen Liu, who received approximately \$8000, \$8000 and 8,000 for services in each of 2023, 2022 and 2021 and Changqing Shi, who received approximately \$9000, \$9000 and \$9,000 for services in fiscal 2023, 2022 and 2021, none of the Non-Employee Directors received any compensation in fiscal year 2023, 2022, and 2021, and Mr. Silong Chen and Dr. Yunhao Chen did not receive any compensation other than as employees of our company.

Non-Employee Directors

We pay our independent directors an annual cash retainer to be determined from time to time by our board of directors, currently around \$8,000 per year, depending on the committee responsibilities of the director. We may also provide stock option equity-based incentives to our directors for their service. We also plan to reimburse our directors for any out-of-pocket expenses incurred by them in connection with their services provided in such capacity. Pursuant to our service agreements with our directors, neither we nor our subsidiaries will provide benefits to directors upon termination of appointment.

C. Board Practice

Board of Directors and Board Committees

Our Board of Directors currently consists of five (5) directors. A majority of our directors (namely, Liu, Shi and Shao) are independent, as such term is defined by the Nasdaq Global Market.

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

Mr. Silong Chen currently holds both the positions of Chief Executive Officer and Chairman of the Board. These two positions have not been consolidated into one position; Mr. Chen simply holds both positions at this time. We do not have a lead independent director, and we do not anticipate having a lead independent director because we will encourage our independent directors to freely voice their opinions on a relatively small company board. We believe this leadership structure is appropriate because we are a relatively small company in the process of listing on a public exchange. Our Board of Directors plays a key role in our risk oversight. The Board of Directors makes all relevant Company decisions. As a smaller company with a small board of directors, we believe it is appropriate to have the involvement and input of all of our directors in risk oversight matters.

Board Committees

We have established three standing committees under the board: the audit committee, the compensation committee and the nominating committee. Each committee has three members, and each member is independent, as such term is defined by the Nasdaq Global Market. 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 and has authority to make grants under our incentive compensation plans and equity-based plans (but our board will retain 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.

The members of the audit committee, the compensation committee and the nominating committee are set forth below. All such members qualify as independent under the rules of the Nasdaq Global Market.

| Director Name | Audit Committee | Compensation Committee | Nominating Committee |
|----------------------|------------------------|-------------------------------|-----------------------------|
| Zhiqiang Shao | (1)(2)(3) | (1) | (1) |
| Changqing Shi | (1) | (1) | (1)(2) |
| Qingshen Liu | (1) | (1)(2) | (1) |

- (1) Committee member
- (2) Committee chair
- (3) Audit committee financial expert

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. We have the right to seek damages if a duty owed by our directors is breached.

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

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

Interested Transactions

A director may vote, attend a board meeting or, presuming that the director is an officer and that it has been approved, sign a document on our behalf with respect to any contract or transaction in which he or she is interested. We require directors to 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.

Compensation and Borrowing

The directors may receive such remuneration as our board of directors may determine or change from time to time. 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 majority of our Board of Directors is required to be independent. 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, and this has not been so fixed as of the date of this report. There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

Director Compensation

All directors hold office until the next annual meeting of shareholders at which they are re-elected and until their successors have been duly elected and qualified. Officers are elected by and serve at the discretion of the Board of Directors. Employee directors do not receive any compensation for their services. Non-employee directors will be entitled to receive such remuneration as our board of directors may determine or change from time to time for serving as directors and may receive incentive option grants from our company. In addition, each non-employee director is entitled to be repaid or prepaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred in attending meetings of our board of directors or committees of our board of directors or shareholder meetings or otherwise in connection with the discharge of his or her duties as a director.

Limitation of Director and Officer Liability

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

Under our Memorandum and Articles of Association, we shall indemnify our directors, officers and liquidators against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with civil, criminal, administrative or investigative proceedings to which they are party or are threatened to be made a party by reason of their acting as our director, officer or liquidator. To be entitled to indemnification, these persons must have acted honestly and in good faith with a view to the best interest of the company and, in the case of criminal proceedings, they must have had no reasonable cause to believe their conduct was unlawful. Such limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission. These provisions will not limit the liability of directors under United States federal securities laws.

We shall 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, officers or persons controlling our company under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Involvement in Certain Legal Proceedings

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

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics applicable to our directors, officers and employees in connection with our application to list on the Nasdaq Global Market. Our Code of Business Conduct and Ethics requires us to comply with applicable laws, regulations and rules; keep accurate corporate records; avoid conflicts of interest; maintain corporate confidentiality; refrain from insider trading, corruption, harassment and other inappropriate behavior; and encourage reporting of any known or suspected violations without fear of reprisal.

D. Employees

As of September 25, 2023, we employed a total of 259 full-time and 24 part-time employees. As of June 30, 2023, we employed a total of 197 full-time and 34 part-time employees. As of June 30, 2022, we employed a total of 309 full-time and 8 part-time employees. As of June 30, 2021, we employed a total of 272 full-time and 59 part-time employees.

| Department | September 25, 2023 | June 30, 2023 | June 30, 2022 | June 30, 2021 |
|--------------------------------------|-----------------------|---------------|---------------|---------------|
| Senior Management | 9 | 9 | 13 | 11 |
| Human Resources & Administration | 9 | 9 | 9 | 9 |
| Finance | 10 | 11 | 14 | 13 |
| Research & Development | 15 | 15 | 20 | 22 |
| Production & Procurement (full time) | 123 | 141 | 228 | 205 |
| Production & Procurement (part time) | 30 | 34 | 8 | 59 |
| Sales & Marketing | 14 | 12 | 25 | 12 |
| Total | <u>210</u> | <u>231</u> | <u>317</u> | <u>331</u> |

All but five (5) of our total employees are employed in China. 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 and housing funds. In fiscal 2023, we contributed in aggregate approximately \$360,000 to the employee benefit plans and social insurance but did not provide housing funds. In fiscal 2022, we contributed in aggregate approximately \$0.5 million to the employee benefit plans and social insurance but did not provide housing funds. In fiscal 2021, we contributed in aggregate approximately \$0.3 million to the employee benefit plans and social insurance but did not provide housing funds. 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.

E. Share Ownership

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, and this has not been so fixed as of the date of this report. There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

Description of Share Capital

Dogness is a British Virgin Islands business company limited by shares and our affairs are governed by our Memorandum and Articles of Association, and the BVI Business Companies Act (As Revised). We were registered with company number 1918432. As set forth in clause 5 of our Memorandum of Association, the objects for which our Company is established are unrestricted.

As of the date of this report, we are authorized to issue 110,000,000 shares of \$0.002 par value per share divided into two classes being 90,931,000 Class A shares and 19,069,000 Class B shares of which 31,055,259 Class A Common Shares are issued and outstanding and 9,069,000 Class B shares are issued and outstanding.

The following are summaries of the material provisions of our Memorandum and Articles of Association, insofar as they relate to the material terms of our Common Shares. The forms of our Memorandum and Articles of Association are filed as exhibits to this report.

Share and Share Options

Incentive Securities Pool

We have established a pool for shares and options for our employees that contain shares and options to purchase our Class A Common Shares equal to ten percent (10%) of the number of Common Shares (including both Class A and B Common Shares) issued and outstanding at the conclusion of our initial public offering. Subject to approval by the Compensation Committee of our Board of Directors, we may grant options in any percentage determined for a particular grant. We may grant the award of options to existing employees, officers and consultants. We may also grant the award of restricted stock as a hiring incentive to employees, officers and directors and to non-employee directors on an ongoing basis.

Unless otherwise provided in the grant, any options granted will vest at a rate of one third (1/3) per year for three (3) years and have a per share exercise price equal to the fair market value of one of our Common Shares on the date of grant. As of September 25, 2023, we had outstanding options to purchase an aggregate of 1,720,000 Class A Common Shares that are exercisable at a purchase price of \$1.0 per share. We may grant options under this pool to certain other employees in the future. We have not yet determined the recipients of any such grants.

Common Shares

General

All of our outstanding Common Shares are fully paid and non-assessable. Our Common Shares are issued in registered form and are issued when registered in our register of members. Our shareholders who are non-residents of the British Virgin Islands may freely hold and vote their Common Shares. Our Memorandum and Articles of Association do not permit us to issue bearer shares. As of the date of this report, we have (a) 9,069,000 Class B Common shares and (b) 31,055,259 Class A Common Shares issued and outstanding.

Distributions

The holders of our Class A and Class B Common Shares are entitled to an equal share in such dividends or distributions as may be declared by our board of directors subject to the BVI Business Companies Act (As Revised).

Conversion of Class B Common Shares

Class B Common Shares may be converted at the request of the shareholder into an equal number of Class A Common Shares at any time. Class A Common Shares are not convertible into Class B Common Shares. In addition, Class B Common Shares automatically and immediately convert into the same number of Class A Common Shares upon any direct or indirect sale, transfer, assignment or disposition. In the event Silong Chen directly or indirectly owns less than 453,450 Class B Common Shares, all remaining Class B Common Shares will automatically be converted into Class A Common Shares.

Voting

Any action required or permitted to be taken by the shareholders must be effected at a duly called meeting of the shareholders entitled to vote on such action and may be effected by a resolution in writing. At each general meeting, each holder of Class A shares who is present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative) will have one vote for each Class A Common Share which such shareholder holds and each Class B Holder who is present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative) will have three votes for each Class B Common Share which such shareholder holds.

Listing

Our Class A Common Shares are listed on the Nasdaq Global Market under the symbol "DOGZ."

Transfer agent and registrar

The transfer agent and registrar for the Class A Common Shares is Transhare Corporation, 2849 Executive Drive, Suite 200 Clearwater, Florida 33762.

Election of directors

Delaware law permits cumulative voting for the election of directors only if expressly authorized in the certificate of incorporation. The laws of the British Virgin Islands, however, do not specifically prohibit or restrict the creation of cumulative voting rights for the election of our directors. Cumulative voting is not a concept that is accepted as a common practice in the British Virgin Islands, and we have made no provisions in our Memorandum and Articles of Association to allow cumulative voting for elections of directors.

Meetings

We must provide written notice of all meetings of shareholders, stating the time, place and, in the case of a special meeting of shareholders, the purpose or purposes thereof, at least 7 days before the date of the proposed meeting to those persons whose names appear as shareholders in the register of members on the date of the notice and are entitled to vote at the meeting. Our board of directors shall call a special meeting upon the written request of shareholders holding at least 30% of our outstanding voting shares. In addition, our board of directors may call a special meeting of shareholders on its own motion. A meeting of shareholders held in contravention of the requirement to give notice is valid if shareholders holding at least 90 percent of the total voting rights on all the matters to be considered at the meeting have waived notice of the meeting and, for this purpose, the presence of a shareholder at the meeting shall constitute waiver in relation to all the shares which that shareholder holds.

Our company's management is entrusted to our board of directors, who will make corporate decisions by board resolution. Our directors are free to meet at such times and in such manner and places within or outside the BVI as the directors determine to be necessary or desirable. A 3 days' notice of a meeting of directors must be given. At any meeting of directors, a quorum will be present if half of the total number of directors is present, unless there are only 2 directors in which case the quorum is 2. If a quorum is not present, the meeting will be dissolved. If a quorum is present, votes of half of present directors are required to pass a resolution of directors.

As few as one-third of our outstanding shares may be sufficient to hold a shareholder meeting. Although our Memorandum and Articles of Association require that holders of at least one-half of our outstanding shares of each class appear in person or by proxy to hold a shareholder meeting, to the extent we fail to have quorum on this initial meeting date, we will reschedule the meeting for the next week, at which second meeting the holders of one-third or more of our outstanding shares will constitute a quorum. As mentioned, at the initial date set for any meeting of shareholders, a quorum will be present if there are shareholders present in person or by proxy representing not less than one-half of the issued Common Shares entitled to vote on the resolutions to be considered at the meeting. A quorum may comprise a single shareholder or proxy and then such person may pass a resolution of shareholders and a certificate signed by such person accompanied where such person be a proxy by a copy of the proxy instrument shall constitute a valid resolution of shareholder. If within thirty minutes from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of shareholders, shall be dissolved; in any other case it shall stand adjourned to the next week in the jurisdiction in which the meeting was to have been held at the same time and place or to such other time and place as the directors may determine, and if at the adjourned meeting there are present within one hour from the time appointed for the meeting in person or by proxy not less than one-third of the votes of the shares or each class or series of shares entitle to vote on the matter to be considered by the meeting, those present shall constitute a quorum but otherwise the meeting shall be dissolved. No business may be transacted at any general meeting unless a quorum is present at the commencement of business. If present, the chair of our board of directors shall be the chair presiding at any meeting of the shareholders.

A corporation that is a shareholder shall be deemed for the purpose of our Memorandum and Articles of Association to be present in person if represented by its duly authorized representative. This duly authorized representative shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were our individual shareholder.

Protection of minority shareholders

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

Pre-emptive rights

There are no pre-emptive rights applicable to the issue by us of new Common Shares under either British Virgin Islands law or our Memorandum and Articles of Association.

Transfer of Common Shares

Subject to the restrictions in our Memorandum and Articles of Association and applicable securities laws, any of our shareholders may transfer all or any of his or her Common Shares by written instrument of transfer signed by the transferor and containing the name and address of the transferee. The transfer of a registered share is effective when the name of the transferee is entered in the register of members. The entry of the name of a person in the company's register of members is prima facie evidence that legal title in the share vests in that person. Our board of directors may resolve by resolution to refuse or delay the registration of the transfer of any Common Share. If our board of directors resolves to refuse or delay any transfer, it shall specify the reasons for such refusal in the resolution. Our directors may not resolve or refuse or delay the transfer of a Common Share unless: (a) the person transferring the shares has failed to pay any amount due in respect of any of those shares; or (b) such refusal or delay is deemed necessary or advisable in our view or that of our legal counsel in order to avoid violation of, or in order to ensure compliance with, any applicable, corporate, securities and other laws and regulations.

Liquidation

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

Calls on Common Shares and forfeiture of Common Shares

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their Common Shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. The Common Shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption of Common Shares

Subject to the provisions of the BVI Business Companies Act (As Revised), we may issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as may be determined by our Memorandum and Articles of Association and subject to any applicable requirements imposed from time to time by, the BVI Business Companies Act (As Revised), the SEC, the Nasdaq Global Market, or by any recognized stock exchange on which our securities are listed.

Modifications of rights

All or any of the special rights attached to any class of shares may, subject to the provisions of the BVI Business Companies Act (As Revised), be amended only pursuant to a resolution passed at a meeting by a majority of the votes cast by those entitled to vote at a meeting of the holders of the shares of that class.

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

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

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

Untraceable shareholders

We are entitled to sell any shares of a shareholder who is untraceable, provided that:

- all checks or warrants in respect of dividends of these shares, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of twelve years prior to the publication of the notice and during the three months referred to in the third bullet point below;
- we have not during that time received any indication of the whereabouts or existence of the shareholder or person entitled to these shares by death, bankruptcy or operation of law; and

- we have caused a notice to be published in newspapers in the manner stipulated by our Memorandum and Articles of Association, giving notice of our intention to sell these shares, and a period of three months has elapsed since such notice.

- The net proceeds of any such sale shall belong to us, and when we receive these net proceeds we shall become indebted to the former shareholder for an amount equal to the net proceeds.

Inspection of books and records

Under British Virgin Islands Law, holders of our Common Shares are entitled, upon giving written notice to us, to inspect (i) our Memorandum and Articles of Association, (ii) the register of members, (iii) the register of directors and (iv) minutes of meetings and resolutions of members, and to make copies and take extracts from the documents and records. However, our directors can refuse access if they are satisfied that to allow such access would be contrary to our interests.

Rights of non-resident or foreign shareholders

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

Issuance of additional Common Shares

Our Memorandum and Articles of Association authorizes our board of directors to issue additional Common Shares from authorized but unissued shares, to the extent available, from time to time as our board of directors shall determine.

Compulsory Acquisition

Subject to the Memorandum and Articles of Association, members of the company holding 90 per cent of the votes of the outstanding shares entitled to vote may give a written instruction to the company directing the company to redeem the shares held by the remaining members. Upon receipt of the written instruction, the company is required to redeem the shares specified in the written instruction irrespective of whether or not the shares are by their terms redeemable and give written notice to each member whose shares are to be redeemed stating the redemption price and the manner in which the redemption is to be effected. In such circumstances minority members can dissent from the acquisition and are entitled to receive payment of the “fair value” of their shares which is assessed on the basis of a statutory appraisal process.

Differences in corporate law

The BVI Business Companies Act (As Revised) and the laws of the British Virgin Islands affecting British Virgin Islands business companies like us and our shareholders differ from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of the material differences between the provisions of the laws of the British Virgin Islands applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and similar arrangements

Under the laws of the British Virgin Islands, two or more companies may merge or consolidate in accordance with Section 170 of the BVI Business Companies Act (As Revised). A merger means the merging of two or more constituent companies into one of the constituent companies and a consolidation means the uniting of two or more constituent companies into a new company. In order to merge or consolidate, the directors of each constituent company must approve a written plan of merger or consolidation, which must be authorized by a resolution of shareholders.

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

A transaction entered into by our company in respect of which a director is interested (including a merger or consolidation) is voidable by us unless the director's interest was (a) disclosed to the board prior to the transaction or (b) the transaction is (i) between the director and the company and (ii) the transaction is in the ordinary course of the company's business and on usual terms and conditions. Notwithstanding the above, a transaction entered into by the company is not voidable if the material facts of the interest are known to the shareholders and they approve or ratify it or the company received fair value for the transaction.

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

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

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

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

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

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

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

Shareholders' suits

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

Prejudiced members

A shareholder who considers that the affairs of the company have been, are being, or are likely to be, conducted in a manner that is, or any act or acts of the company have been, or are, likely to be oppressive, unfairly discriminatory or unfairly prejudicial to him in that capacity, can apply to the court under Section 184I of the BVI Business Companies Act (As Revised), inter alia, for an order that his shares be acquired, that he be provided compensation, that the Court regulate the future conduct of the company, or that any decision of the company which contravenes the BVI Business Companies Act (As Revised) or our Memorandum and Articles of Association be set aside.

Derivative actions

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

Just and equitable winding up

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

Indemnification of directors and executive officers and limitation of liability

British Virgin Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any provision providing indemnification may be held by the British Virgin Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime.

Under our Memorandum and Articles of Association, we indemnify 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 for any person who:

- is or was a party or is threatened to be made a party to any threatened, pending or completed proceedings, whether civil, criminal, administrative or investigative, by reason of the fact that the person is or was our director; or
- is or was, at our request, serving as a director or officer of, or in any other capacity is or was acting for, another body corporate or a partnership, joint venture, trust or other enterprise.

These indemnities only apply if the person acted honestly and in good faith with a view to our best interests and, in the case of criminal proceedings, the person had no reasonable cause to believe that his conduct was unlawful. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation.

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

Anti-takeover provisions in our Memorandum and Articles of Association

Some provisions of our Memorandum and Articles of Association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that provide for a staggered board of directors and prevent shareholders from taking an action by written consent in lieu of a meeting. However, under British Virgin Islands law, our directors may only exercise the rights and powers granted to them under our Memorandum and Articles of Association, as amended and restated from time to time, as they believe in good faith to be in the best interests of our company.

Directors' fiduciary duties

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

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

Shareholder action by written consent

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. British Virgin Islands law provides that shareholders may approve corporate matters by way of a written resolution without a meeting signed by or on behalf of shareholders sufficient to constitute the requisite majority of shareholders who would have been entitled to vote on such matter at a general meeting; provided that if the consent is less than unanimous, notice must be given to all non-consenting shareholders. Our Memorandum and Articles of Association permit shareholders to act by written consent.

Shareholder proposals

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings. British Virgin Islands law and our Memorandum and Articles of Association allow our shareholders holding not less than 30% of the votes of the outstanding voting shares to requisition a shareholders' meeting. We are not obliged by law to call shareholders' annual general meetings, but our Memorandum and Articles of Association do permit the directors to call such a meeting. The location of any shareholders' meeting can be determined by the board of directors and can be held anywhere in the world.

Cumulative voting

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

Removal of directors

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our Memorandum and Articles of Association, directors can be removed from office, with cause, by a resolution of shareholders or by a resolution of directors passed at a meeting of directors called for the purpose of removing the director or for purposes including the removal of the director.

Transactions with interested shareholders

The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or group who or which owns or owned 15% or more of the target's outstanding voting shares within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's board of directors. British Virgin Islands law has no comparable statute.

Dissolution; winding up

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under the BVI Business Companies Act (As Revised) and our Memorandum and Articles of Association, we may appoint a voluntary liquidator by a resolution of the shareholders or by resolution of directors.

Variation of rights of shares

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under our Memorandum and Articles of Association, if at any time our shares are divided into different classes of shares, the rights attached to any class may only be varied, whether or not our company is in liquidation, with the consent in writing of or by a resolution passed at a meeting by the holders of not less than 50 percent of the issued shares in that class.

Amendment of governing documents

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

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth information with respect to beneficial ownership of our Common Shares as of October 27, 2021 by:

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

The number and percentage of Common Shares beneficially owned are based on 40,124,259 Common Shares outstanding as of September 30, 2023. Information with respect to beneficial ownership has been furnished by each director, officer or beneficial owner of 5% or more of our Common Shares. Beneficial ownership is determined in accordance with the rules of the SEC and generally requires that such person have voting or investment power with respect to securities. In computing the number of Common Shares beneficially owned by a person listed below and the percentage ownership of such person, Common Shares underlying options, warrants or convertible securities held by each such person that are exercisable or convertible within 60 days of October 27, 2021 are deemed outstanding, but are not deemed outstanding for computing the percentage ownership of any other person. Except as otherwise indicated in the footnotes to this table, or as required by applicable community property laws, all persons listed have sole voting and investment power for all Common Shares shown as beneficially owned by them. Unless otherwise indicated in the footnotes, the address for each principal shareholder is in the care of our Company at Tongsha Industrial Estate, East District, Dongguan, Guangdong, People's Republic of China 523217. As of the date of the report, we have approximately 9 shareholders of record. This does not include shareholders who hold their shares in "street name". A majority of our Common Shares are held outside the United States, and none of our directors is located in the United States.

| | Shares Beneficially Owned (1) | | Percentage of |
|---|-------------------------------|---------|------------------|
| | Number | Percent | Voting Power (2) |
| Named Executive Officers and Directors: | | | |
| Silong Chen ⁽³⁾ | 10,069,000 | 24.48% | 73.80% |
| Zhiqiang Shao | 0 | 0% | - |
| Changqing Shi | 0 | 0% | - |
| Qingshen Liu | 0 | 0% | - |
| Yunhao Chen ⁽⁴⁾ | 50,000 | * | * |
| Aihua Cao ⁽⁵⁾ | 0 | 0% | - |
| 5% or Greater Shareholders | | | |
| Fine victory holding company Limited ⁽³⁾ | 9,069,000 | 22.60% | 74.50% |

* 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. All shares represent Class A and Class B Common Shares and granted options to the extent such options will vest within 60 days after October 11, 2023.

(2) Class A Common Shares have one vote per share. Class B Common Shares have three votes per share.

(3) Consists of 9,069,000 Class B Common Shares held by Fine victory holding company Limited, of which Silong Chen may be deemed to have voting and dispositive power, 500,000 Class A Common Shares, and vested options to purchase 500,000 Class A Common Shares. Due to his ownership of all outstanding Class B Common Shares (which have ten votes per share rather than one vote like Class A Common Shares), Mr. Silong Chen has substantial control over Dogness.

(4) Consists of 50,000 options to purchase Class A Common Shares granted and vested as part of the salary on January 26, 2023. Dr. Chen has resigned from the position as the Chief Financial Officer as of August 1, 2023

(5) Aihua Cao started to serve as our Chief Financial Officer since August 16, 2023.

B. Related party transactions

In addition to the executive officer and director compensation arrangements discussed in “Executive Compensation,” below we describe transactions since July 1, 2020, to which we have been a participant, in which the amount involved in the transactions is material to us or the related party. The relationship of related parties is summarized as follow:

| <u>Name of Related Party</u> | <u>Relationship to the Company</u> |
|---|--|
| Silong Chen | Chief Executive Officer; Chairman of the Board of Directors |
| Junqiang Chen | Relative of Mr. Silong Chen |
| Linsun Smart Technology Co., Ltd (“Linsun”) | Equity investee -10% of the ownership |
| Dogness Network Technology Co., Ltd (“Dogness Network”) | Equity investee - 13% of the ownership |
| Dogness Technology Co., Ltd (“Dogness Technology”) | The legal representative is Junqiang Chen, the relative of Mr. Silong Chen |

(1) Due from related parties

Due from related parties consist of mainly rent receivables from the following:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|--------------------|--------------------------------------|--------------------------------------|
| Linsun | \$ 87,430 | \$ 77,964 |
| Dogness Network | - | 7,340 |
| Dogness Technology | - | 20,099 |
| Total | <u>\$ 87,430</u> | <u>\$ 105,403</u> |

(2) Due to related parties

Due to related parties consist of the following:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|--------------------|--------------------------------------|--------------------------------------|
| Mr. Silong Chen | \$ 80,327 | \$ 130,468 |
| Dogness Technology | 5,516 | - |
| Total | <u>\$ 85,843</u> | <u>\$ 130,468</u> |

Mr. Silong Chen periodically provides working capital loans to support the Company’s operations when needed. Such advances are non-interest bearing and due on demand.

(3) Loan guarantee provided by related parties

In connection with the Company’s bank borrowings, Mr. Silong Chen pledged his personal assets as collateral and signed guarantee agreements to provide guarantee to the Company’s long-term bank loans. (See Note 8).

(4) Sales to related parties

Revenue from related parties consisted of the following:

| <u>Name</u> | <u>For the Years Ended June 30,</u> | | |
|--------------------|-------------------------------------|---------------------|---------------------|
| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
| Linsun | \$ - | \$ - | \$ - |
| Dogness Network | 1,543,979 | 1,806,732 | 1,207,686 |
| Dogness Technology | 156,194 | 405,847 | - |
| Total | <u>\$ 1,700,173</u> | <u>\$ 2,212,579</u> | <u>\$ 1,207,686</u> |

Cost of revenue associated with the sales to these related parties amounted to \$1,162,314 \$1,301,180 and \$663,742 for the years ended June 30, 2023, 2022 and 2021, respectively.

(5) Accounts receivable from related parties

Accounts receivable from related parties consisted of the following:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|--|--------------------------------------|--------------------------------------|
| Accounts receivable - related parties: | | |
| Dogness Network | \$ 1,133,092 | \$ 1,036,476 |
| Dogness Technology | 139,292 | 58,379 |
| Total | <u>\$ 1,272,384</u> | <u>\$ 1,094,855</u> |

As of June 30, 2023, total accounts receivable from related parties amounted to \$1,272,384, of which \$164,807 has been collected as of August 2023.

(6) Advance to supplier- related party

Advance to supplier from related parties consisted of the following:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|--------------------------------------|--------------------------------------|--------------------------------------|
| Advance to supplier - related party: | | |
| Linsun | \$ 239,729 | \$ - |
| Total | <u>\$ 239,729</u> | <u>\$ -</u> |

(7) Accounts payable to related parties

Accounts payables to related parties consisted of the following:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|-------------------------------------|--------------------------------------|--------------------------------------|
| Accounts payable - related parties: | | |
| Linsun | \$ - | \$ 393,625 |
| Total | <u>\$ -</u> | <u>\$ 393,625</u> |

(8) Purchase from related parties

During the years ended June 30, 2023, 2022 and 2021, the Company purchased certain pet product components and parts, such as smart pet water and food feeding devices, from Linsun. Total purchases from Linsun amounted to \$565,548, \$3,199,833 and \$3,015,442 for the years ended June 30, 2023, 2022 and 2021, respectively.

(9) Lease arrangement with related parties

On January 2, 2020, Dongguan Jiasheng signed a lease agreement with Linsun, which enabled Linsun to lease part of Dongguan Jiasheng's new production facilities of approximately 8,460 square meters for ten years. Annual lease payment from Linsun amounted to approximately \$230,000 and is subject to 15% increase every three years. For the year ended June 30, 2023, 2022 and 2021, the Company recorded rent income of \$434,625, \$462,210 and \$300,511 as other income through leasing the manufacturing facilities to Linsun, respectively.

On August 1, 2020, Dongguan Jiasheng signed a lease agreement with Dogness Network, which enabled Dogness Network to lease part of Dongguan Jiasheng's new production facilities of approximately 580 square meters for ten years. Annual lease payment from Dogness Network amounted to approximately \$35,000 and is subject to 15% increase every three years. This lease agreement was terminated in October, 2022. For the years ended June 30, 2023, 2022 and 2021, the Company recorded rent income of \$10,952, \$78,251 and \$52,796 as other income through leasing the manufacturing facilities to Dogness Network.

On August 1, 2020, Dongguan Jiasheng signed a lease agreement with Dogness Technology, which enabled Dogness Technology to lease part of Dongguan Jiasheng's new production facilities of approximately 50 square meters for ten years. Annual lease payment from Dogness Technology amounted to \$1,726. For the years ended June 30, 2023, 2022 and 2021, the Company recorded rent income of \$1,584, \$1,706 and \$1,661 as other income through leasing the manufacturing facilities to Dogness Technology.

Future Related Party Transactions

The Corporate Governance Committee of our Board of Directors must approve all related party transactions. All related party transactions will be made or entered into on terms that are no less favorable to use than can be obtained from unaffiliated third parties. Related party transactions that we have previously entered into were not approved by independent directors, as we had no independent directors at that time.

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

Please refer to Item 18.

Legal and Administrative Proceedings

We are currently not a party to any material legal or administrative proceedings and are not aware of any pending or threatened material legal or administrative proceedings against us. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

Dividend Policy

We have not declared or paid any cash dividends in the last two years. We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions and future prospects and other factors the Board of Directors may deem relevant.

Subject to the memorandum and articles of association of the company, the directors of a British Virgin Islands business company may, by resolution of directors, authorise a distribution by the company to members at such time and of such an amount, as the directors think fit if they are satisfied, on reasonable grounds, that the company will, immediately after the distribution, satisfy the solvency test. A company satisfies the solvency test if (a) the value of the company's assets exceeds its liabilities, and (b) the company is able to pay its debts as they fall due. The resolution of the directors must contain a statement that, in the opinion of the directors, the company will, immediately after the distribution, satisfy the solvency test.

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 our Hong Kong subsidiaries, HK Jiasheng and HK Dogness. Current PRC regulations permit the Mainland China Subsidiaries to pay dividends to HK Dogness only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Each of such entity in China is also required to further set aside a portion of its after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at the discretion of its board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation.

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

Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from operations in China may be used to pay dividends to our company. The Mainland China Subsidiaries may go to a licensed bank to remit their after-tax profits out of China. Nevertheless, the bank will require the Mainland China Subsidiaries to produce the following documents for verification before they may transfer the dividends to an overseas bank account of their parent company, HK Dogness, or indirect parent, Dogness: (1) tax payment statement and tax return; (2) auditor's report issued by a Chinese certified public accounting firm confirming the availability of profits and dividends for distribution in the current year; (3) the Board minutes authorizing the distribution of dividends to its shareholders; (4) the foreign exchange registration certificate issued by SAFE; (5) the capital verification report issued by a Chinese certified public accounting firm; (6) if the declared dividends will be distributed out of accumulated profits earned in prior years, the Mainland China Subsidiaries must appoint a Chinese certified public accounting firm to issue an auditors' report to the bank to certify the Mainland China Subsidiaries' financial position during the years from which the profits arose; and (7) other information as required by SAFE.

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

We completed our initial public offering on December 18, 2017. Our Class A Common Shares trade under the trading symbol "DOGZ" on the NASDAQ Global Market.

As of October 10, 2023, there were approximately 6 holders of record of our Class A Common Shares. This excludes our Class A Common Shares owned by shareholders holding Class A Common Shares under nominee security position listings. On October 10, 2023, the last sales price of our Class A Common Shares as reported on the NASDAQ Global Market was \$0.43 per common share.

B. Plan of distribution

Not applicable for annual reports on Form 20-F.

C. Markets

Our Class A Common Shares are listed on the Nasdaq Global Market under the symbol "DOGZ."

D. Selling shareholders

Not applicable for annual reports on Form 20-F.

E. Dilution

Not applicable for annual reports on Form 20-F.

F. Expenses of the issue

Not applicable for annual reports on Form 20-F.

Item 10. Additional Information

A. Share capital

Not applicable for annual reports on Form 20-F.

B. Memorandum and articles of association

The information required by this item is incorporated by reference to the material headed “Description of Share Capital” in our Registration Statement on Form F-1, File no. 333-220547, filed with the SEC on September 20, 2017, as amended.

C. Material contracts

On July 15, 2021, the Company and certain institutional investors entered into a securities purchase agreement in connection with an offering, pursuant to which the Company agreed to sell to investors an aggregate of 2,178,120 Class A Common Shares. The common share purchase price was \$1.82 per share. After payment of expenses, the Company received approximately \$3.4 million in net proceeds from the sale of the common shares. Additionally, the Company also issued warrants to purchase 174,249 common shares to the placement agent exercisable at \$1.82 per share.

On January 15, 2021, the Company and certain institutional investors entered into a securities purchase agreement in connection with an offering, pursuant to which the Company agreed to sell to investors an aggregate of 3,455,130 Class A Common Shares and investor warrants to initially purchase an aggregate of 1,727,565 Class A Common Shares. The common share purchase price was \$2.15 per Class A Common Share; and the investor warrants are initially exercisable at \$2.70 per share. The aggregate gross proceeds from the sale of the Class A Common Shares, before deducting fees to the Placement Agent and other estimated offering expenses payable by the Company was approximately \$7.4 million. This amount did not include any proceeds from warrant exercises.

On February 22, 2022, the Company and certain institutional investors entered into a securities purchase agreement in connection with an offering, pursuant to which the Company sold to investors an aggregate of 1,966,251 Class A Common Shares at a purchase price of \$2.88 per share. The aggregate gross proceeds from the sale of the Class A Common Shares, before deducting fees to the Placement Agent (as defined below) and other estimated offering expenses payable by the Company were approximately \$5.66 million.

On June 1, 2022, the Company and certain institutional investors entered into a securities purchase agreement for a registered direct offering of approximately \$12 million of Class A common shares and warrants at a price of \$3.30 per unit. The Company will issued an aggregate of 3,636,365 Class A common shares and warrants to purchase an aggregate of 2,181,819 Class A common shares to the investors. The aggregate gross proceeds from the sale of the securities, before deducting fees payable to the placement agent and other estimated offering expenses payable by the Company were approximately \$12 million. This amount does not include any proceeds from the exercise of the warrants being offered.

D. Exchange controls

See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulation on Foreign Exchange Control

Regulation of Dividend Distribution

See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulation on Dividend Distributions

E. Taxation

The following sets forth the material British Virgin Islands, Chinese and U.S. federal income tax consequences related to an investment in our Class A Common Shares. It is directed to U.S. Holders (as defined below) of our Class A Common Shares and is based upon laws and relevant interpretations thereof in effect as of the date of this report, all of which are subject to change. This description does not deal with all possible tax consequences relating to an investment in our Class A 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 Class A 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 report and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this 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.

Generally

Dogness is a tax-exempt company incorporated in the British Virgin Islands. HK Dogness and HK Jiasheng are subject to Hong Kong profits tax rates. Dongguan Dogness and Dongguan Jiasheng are governed by mainland China laws.

Our company pays mainland China enterprise income taxes, value added taxes and business taxes in mainland China for revenues from Dongguan Dogness and Dongguan Jiasheng. The Business Tax has been incorporated into VAT since May 1st of 2016. British Virgin Islands tax laws apply to Dogness.

Mainland China Enterprise Taxation

The following brief description of Chinese enterprise laws is designed to highlight the enterprise-level taxation on our earnings, which will affect the amount of dividends, if any, we are ultimately able to pay to our shareholders. See “Dividend Policy.”

Mainland China enterprise income tax is calculated based on taxable income determined under mainland China accounting principles. The Enterprise Income Tax Law (the “EIT Law”), effective as of January 1, 2008, enterprises pay a unified income tax rate of 25% and unified tax deduction standards are applied equally to both domestic-invested enterprises and foreign-invested enterprises. Under the EIT Law, an enterprise established outside of mainland China with “de facto management bodies” within mainland China is considered a resident enterprise and will normally be subject to the enterprise income tax at the rate of 25% on its global income. If the PRC tax authorities subsequently determine that we, HK Jiasheng, HK Dogness or any future non-Mainland China Subsidiary should be classified as a mainland China resident enterprise, then such entity’s global income will be subject to mainland China income tax at a tax rate of 25%. In addition, under the EIT Law, payments from HK Jiasheng or HK Dogness to us may be subject to a withholding tax. The EIT Law currently provides for a withholding tax rate of 20%. If Dogness, HK Jiasheng or HK Dogness is deemed to be a non-resident enterprise, then it will be subject to a withholding tax at the rate of 10% on any dividends paid by its Chinese subsidiaries to such entity. In practice, the tax authorities typically impose the withholding tax rate of 10% rate, as prescribed in the implementation regulations; however, there can be no guarantee that this practice will continue as more guidance is provided by relevant government authorities. We are actively monitoring the proposed withholding tax and are evaluating appropriate organizational changes to minimize the corresponding tax impact.

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

Our company will have to withhold that tax when we are distributing dividends to our foreign investors. If we do not fulfill this duty, we will receive a fine up to five times of the amount we are supposed to pay as tax or other administrative penalties from government. The worst case could be criminal charge of tax evasion to responsible persons. The criminal penalty for this offense depends on the tax amount the offender evaded, and the maximum penalty will be 3 – 7 years imprisonment plus fine.

Mainland China Value Added Tax

Pursuant to the Provisional Regulation of China on Value Added Tax and its implementing rules, issued in December 1993, all entities and individuals that are engaged in the businesses of sales of goods, provision of repair and placement services and importation of goods into China are generally subject to a VAT at a rate of 17% (with the exception of certain goods which are subject to a rate of 13%) of the gross sales proceeds received, less any VAT already paid or borne by the taxpayer on the goods or services purchased by it and utilized in the production of goods or provisions of services that have generated the gross sales proceeds.

Mainland China Business Tax

Companies in China are generally subject to business tax and related surcharges by various local tax authorities at rates ranging from 3% to 20% on revenue generated from providing services and revenue generated from the transfer of intangibles. However, since May 1, 2016, the Business Tax has been incorporated into Value Added Tax in China, which means there will be no more Business Tax and accordingly some business operations previously taxed in the name of Business Tax will be taxed in the manner of VAT thereafter. In general, this newly implemented policy is intended to relieve many companies from heavy taxes under currently slowing down economy. In the case of our Chinese subsidiaries, Dongguan Dogness and Dongguan Jiasheng, even though the VAT rate is 17%, with the deductibles the company may get in the business process, it will bear less burden than previous Business Tax.

British Virgin Islands Taxation

Under the BVI Business Companies Act (As Revised) 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 Business Companies Act (As Revised).

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

All instruments relating to transfers of property to or by our company and all instruments relating to transactions in respect of the shares, debt obligations or other securities of our company and all instruments relating to other transactions relating to the business of our company are exempt from payment of stamp duty in the BVI. This assumes that our company does not hold an interest in real estate in the BVI.

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

United States Federal Income Taxation

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

- banks;
- financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to mark-to-market;
- U.S. expatriates;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding our 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 own tax advisors about the application of the U.S. Federal tax rules to their particular circumstances as well as the state, local, foreign and other tax consequences to them of the purchase, ownership and disposition of our 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). With respect to corporate U.S. Holders, 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 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 Global 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 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 Class A 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 Class A Common Shares. The gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the Class A Common Shares for more than one year, you will be eligible for (a) reduced tax rates of 0% (for individuals in the 10% or 15% tax brackets), (b) higher tax rates of 20% (for individuals in the 39.6% tax bracket) or (c) 15% for all other individuals. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as United States source income or loss for foreign tax credit limitation purposes.

Passive Foreign Investment Company

Based on our current and anticipated operations and the composition of our assets, we do not expect to be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our current taxable year ending June 30, 2017. Our actual PFIC status for the current taxable year ending June 30, 2017 will not be determinable until the close of such taxable year and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year. Because PFIC status is a factual determination for each taxable year which cannot be made until the close of the taxable year. A non-U.S. corporation is considered a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income; 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 from no to yes. 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 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 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 basis in such Common Shares. You are allowed a deduction for the excess, if any, of the adjusted 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 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 Global Market. If the Class A Common Shares are regularly traded on the Nasdaq Global Market and if you are a holder of Class A 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 be required to file U.S. Internal Revenue Service Form 8621 regarding distributions received on the Common Shares and any gain realized on the disposition of the Common Shares.

You are urged to consult your tax advisors regarding the application of the PFIC rules to your investment in our Class A 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 Common 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 Common Shares. U.S. Holders are urged to consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

F. Dividends and paying agents

Not applicable for annual reports on Form 20-F.

G. Statement by experts

Not applicable for annual reports on Form 20-F.

H. Documents on display

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

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to interest rate risk primarily relates to excess cash invested in short-term instruments with original maturities of less than a year and long-term held-to-maturity securities with maturities of greater than a year. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if we have to sell securities that have declined in market value due to changes in interest rates. We have not been, and do not expect to be, exposed to material interest rate risks, and therefore have not used any derivative financial instruments to manage our interest risk exposure.

In the year ended June 30, 2023, we had approximately \$4.6 million in outstanding bank loans, with weighted average annual interest rates of 6.22% and approximately \$0.9 million in outstanding bank line of credit with interest rate of 4.25%. As of June 30, 2023, if interest rates increased/decreased by 1 percentage point, 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/loss attributable to equity owners of our company would have been approximately RMB0.4 million (\$0.05 million) lower/higher, respectively, mainly as a result of interest expense on our bank loans.

In the year ended June 30, 2022, we had approximately \$6.3 million in outstanding bank loans, with weighted average annual interest rates of 6.35% and approximately \$0.6 million in outstanding bank line of credit with interest rate of 4.25%. As of June 30, 2022, if interest rates increased/decreased by 1 percentage point, 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/loss attributable to equity owners of our company would have been approximately RMB 0.5 million (\$0.07 million) lower/higher, respectively, mainly as a result of interest expense on our bank loans.

In the year ended June 30, 2021, we had approximately \$7.4 million in outstanding bank loans, with weighted average annual interest rates of 6.24% and approximately \$0.7 million in outstanding bank line of credit with interest rate of 4.25%. As of June 30, 2021, if interest rates increased/decreased by 1 percentage point, 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/loss attributable to equity owners of our company would have been approximately RMB 0.6 million (\$0.09 million) lower/higher, respectively, mainly as a result of interest expense on our bank loans.

The Company had short-term investments of \$Nil, \$52,255 and \$549,895 as of June 30, 2023, 2022 and 2021, respectively. The Company recorded interest income of \$13,190, \$1,385 and \$48,058 for the years ended June 30, 2023, 2022 and 2021, respectively. We had no long-term held-to-maturity investments as of June 30, 2023, 2022 and 2021.

Foreign Exchange Risk

Our functional currency is the RMB, and our financial statements are presented in U.S. dollars. The RMB, appreciated by 8.70% in 2021, depreciated by 3.70% in 2022, and appreciated by approximately 8.26% in 2023. The change in the value of the 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. The negative impact attributable to changes in revenue and expenses due to foreign currency translation are summarized as follows.

| | Year ended June 30, 2023 | Year ended June 30, 2022 |
|------------------------------|-------------------------------------|-------------------------------------|
| Impact on revenue | \$ 721,476 | \$ 979,555 |
| Impact on operating expenses | \$ 542,622 | \$ 363,874 |
| Impact on net income (loss) | \$ (306,056) | \$ 109,040 |

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. dollars 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. See “Operating and Financial Review and Prospects— Impact of Foreign Currency Fluctuations

Commodity Risk

As a developer and manufacturer of products composed largely of plastic, nylon and metal, our Company is exposed to the risk of an increase in the price of raw materials. We historically have been able to pass on price increases to customers by virtue of pricing terms that vary with changes in commodity prices, but we have not entered into any contract to hedge any specific commodity risk. Moreover, our Company does not purchase or trade on commodity instruments or positions; instead, it purchases commodities for use.

Item 12. Description of Securities Other than Equity Securities

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

Part II

Item 13. Defaults, Dividend Arrearages and Delinquencies

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

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

- A. Not applicable.
- B. Not applicable.
- C. Not applicable.
- D. Not applicable.
- E. Not applicable.

Item 15. Controls and Procedures

- (a) Disclosure Controls and Procedures.

The Company's management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that is designed to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As of June 30, 2023, our company carried out an evaluation, under the supervision of and with the participation of management, including our Company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of our Company's disclosure controls and procedures. Included in this Annual Report on Form 20-F, the chief executive officer and chief financial officer concluded that our Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were ineffective in timely alerting them to information required to be included in the Company's U.S. Securities and Exchange Commission (the "Commission") filings.

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

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. We used the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “2013 COSO Framework”) in performing the assessment of the effectiveness of the Company’s internal control over financial reporting as of June 30, 2023. Based on the assessment, management determined that, as of June 30, 2023, we did not maintain effective internal control over financial reporting as we did not have sufficient full-time accounting and financial reporting personnel with appropriate levels of accounting knowledge and experience to monitor the daily recording of transactions, to address complex U.S. GAAP accounting issues and the related disclosures under U.S. GAAP. In addition, there was a lack of sufficient documented financial closing procedures.

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

Not applicable.

(d) Changes in internal control over financial reporting.

Management continues to focus on internal control over financial reporting. As of June 30, 2023, the Company has completed certain documentation of our internal controls and will be implementing the following remedial initiatives including engaging more qualified accounting personnel and consultants with relevant U.S. GAAP and SEC reporting experience and qualification to strengthen the financial reporting and U.S. GAAP training. The Company also plans to take other steps to strengthen our internal control over financial reporting, including training of the current accounting personal regarding U.S. GAAP and SEC reporting regulations; establishing an internal audit function and standardizing the Company’s semi-annual and year-end closing and financial reporting processes.

Item 16.

[Reserved]

Item 16A. Audit Committee Financial Expert

The Company’s board of directors has determined that Mr. Shao qualifies as an “audit committee financial expert” in accordance with applicable Nasdaq Global Market standards. The Company’s board of directors has also determined that Mr. Shao and the other members of the Audit Committee are all “independent” in accordance with the applicable Nasdaq Global Market standards.

Item 16B. Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to the Company’s directors, officers, employees and advisors. The Code of Ethics is attached it as an exhibit to this annual report. We have also posted a copy of our code of business conduct and ethics on our website at www.dognesspet.com.

Item 16C. Principal Accountant Fees and Services

Audit Alliance LLP was engaged by the Company on June 21, 2023 to serve as its independent registered public accounting firm for fiscal 2023.

Fees Paid To Independent Registered Public Accounting Firm

Audit Fees

During fiscal year 2023, Audit Alliance LLP's audit fees were \$160,000, and Prager Metis CPAs, LLC's audit fees were \$0.
During fiscal year 2022, Audit Alliance LLP's audit fees were \$160,000, and Prager Metis CPAs, LLC's audit fees were \$30,000.
During fiscal year 2021, Prager Metis CPAs, LLC's audit fees were \$250,000, and Friedman LLP's audit fees were \$50,000.

Audit Related Fees

During fiscal year 2023, Audit Alliance LLP's audit-related fees were \$4,700.
During fiscal year 2022, Audit Alliance LLP's audit-related fees were \$2,250.
During fiscal year 2021, Prager Metis CPAs, LLC's audit-related fees were \$0, and Friedman LLP's audit-related fees were \$0.

Tax Fees

During fiscal year 2023, Audit Alliance LLP's tax fees were \$0].
During fiscal year 2022, Audit Alliance LLP's tax fees were \$0.
During fiscal year 2021, Prager Metis CPAs, LLC's tax fees were \$0, and Friedman LLP's tax fees were \$0.

All Other Fees

During fiscal year 2023, Audit Alliance LLP's other fees were \$40,000, and Prager Metis CPAs, LLC's other fees were \$48,000.
During fiscal year 2022, Audit Alliance LLP's other fees were \$0, Prager Metis CPAs, LLC's other fees were \$81,000, and Friedman LLP's other fees were \$80,000.
During fiscal year 2021, Prager Metis CPAs, LLC's other fees were \$0, and Friedman LLP's other fees were \$30,000.

Audit Committee Pre-Approval Policies

Before Audit Alliance 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 Audit Alliance LLP have been so approved.

Percentage of Hours

The percentage of hours expended on the principal accountants' engagement to audit our consolidated financial statements for fiscal 2022 that were attributed to work performed by persons other than Audit Alliance LLP's full-time permanent employees was less than 50%.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

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

Neither the Company nor any affiliated purchaser has purchased any shares or other units of any class of the Company's equity securities registered by the Company pursuant to Section 12 of the Securities Exchange Act during the fiscal year ended June 30, 2021.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

We are incorporated in the British Virgin Islands and our corporate governance practices are governed by applicable BVI law. In addition, because our Class A Common Shares are listed on The Nasdaq Global Market, we are subject to Nasdaq's corporate governance requirements.

As a foreign private issuer, we are permitted to rely on exemptions from certain Nasdaq corporate governance standards applicable to U.S. issuers, including the requirement that a majority of an issuer's directors consist of independent directors. If we opt to rely on such exemptions in the future, such decision might afford less protection to holders of our Class A Common Shares.

Section 5605(b)(1) of the Nasdaq Listing Rules requires listed companies to have, among other things, a majority of its board members to be independent, and Section 5605(d) and 5605(e) require listed companies to have independent director oversight of executive compensation and nomination of directors. As a foreign private issuer, however, we are permitted to follow home country practice in lieu of the above requirements. Our Board of Directors could make such a decision to depart from such requirements by ordinary resolution.

The corporate governance practice in our home country, the British Virgin Islands, does not require a majority of our board to consist of independent directors or the implementation of a nominating and corporate governance committee. Since a majority of our board of directors would not consist of independent directors if we relied on the foreign private issuer exemption, fewer board members would be exercising independent judgment and the level of board oversight on the management of our company might decrease as a result. In addition, we could opt to follow British Virgin Islands law instead of the Nasdaq requirements that mandate that we obtain shareholder approval for certain dilutive events, such as an issuance that will result in a change of control, certain transactions other than a public offering involving issuances of 20% or greater interests in the company and certain acquisitions of the shares or assets of another company. For a description of the material corporate governance differences between the Nasdaq requirements and British Virgin Islands law, see “Description of Share Capital — Differences in Corporate Law”.

Item 16 H. Mine Safety Disclosure

Not applicable.

Part III

Item 17. Financial Statements

See Item 18.

Item 18. Financial Statements

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

Item 19. Exhibits

The following documents are filed as part of this annual report:

- 1.1* [Articles of Association of Dogness \(International\) Corporation \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 1.2* [Memorandum of Association of Dogness \(International\) Corporation \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 2.1* [Specimen Class A Common Share Certificate \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 2.2* [Form of Underwriter Warrant \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 2.3* [Form of Incentive Securities Plan \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 4.1* [Employment Agreement with Mr. Silong Chen \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 4.2* [Employment Agreement with Dr. Yunhao Chen \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 4.3* [Form of Subscription Agreement \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 4.4* [Form of Purchase Order Agreement with Petco \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 4.5* [Summary Translation of Form of Purchase Framework Agreement with Dongguan Silk Import and Export Co., Ltd \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 4.6* [Summary Translation of Form of Purchase Framework Agreement with Dongguan Anyi Trading Co. \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 4.7* [Form of Purchase Order between Xiamen Xianglu Chemical Fiber Co., Ltd and Dongguan Jiasheng Enterprise Co., Ltd \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 4.8* [Summary Translation of Agreement between Dongguan Jiasheng Enterprise Co., Ltd and Dongguan University of Technology \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 4.9* [Form of Securities Purchase Agreement dated January 15, 2021, by and between the Company and the Investors \(incorporated by reference to Exhibit 10.1 of the Company's Report on Form 6-K filed with the SEC on December 7, 2021\)](#)
- 4.10* [Form of Warrant to Purchase Common Shares in connection with the Securities Purchase Agreement dated January 15, 2021 \(incorporated by reference to Exhibit 4.1 of the Company's Report on Form 6-K filed with the SEC on January 15, 2021\)](#)
- 4.11* [Form of Placement Agent Warrant to Purchase Common Shares in connection with the Securities Purchase Agreement dated January 15, 2021 \(incorporated by reference to Exhibit 4.2 of the Company's Report on Form 6-K filed with the SEC on January 15, 2021\)](#)
- 4.12* [Form of Securities Purchase Agreement dated July 15, 2021, by and between the Company and the Investors \(incorporated by reference to Exhibit 10.1 of the Company's Report on Form 6-K filed with the SEC on July 15, 2021\)](#)

- 4.13* [Form of Placement Agent Warrant to Purchase Common Shares in connection with the Securities Purchase Agreement dated July 15, 2021 \(incorporated by reference to Exhibit 4.1 of the Company's Report on Form 6-K filed with the SEC on July 19, 2021\)](#)
- 4.14* [Form of Placement Agent Agreement dated July 15, 2021 \(incorporated by reference to Exhibit 10.2 of the Company's Report on Form 6-K filed with the SEC on July 19, 2021\)](#)
- 4.15* [Form of Securities Purchase Agreement dated June 1, 2022, by and between the Company and the investors \(incorporated by reference to Exhibit 10.2 of the Company's Report on Form 6-K filed with the SEC on June 2, 2022\)](#)
- 4.16* [Form of Placement Agent Agreement dated June 1, 2022 \(incorporated by reference to Exhibit 10.1 of the Company's Report on Form 6-K filed with the SEC on June 2, 2022\)](#)
- 4.17* [Form of Securities Purchase Agreement dated February 22, 2022, by and between the Company and the investors \(incorporated by reference to Exhibit 10.1 of the Company's Report on Form 6-K filed with the SEC on February 24, 2022\)](#)
- 4.18* [Form of Placement Agent Agreement dated February 22, 2022 \(incorporated by reference to Exhibit 10.2 of the Company's Report on Form 6-K filed with the SEC on February, 2022\)](#)
- 4.19 [Employment Agreement with Aihua Cao](#)
- 8.1* [List of subsidiaries](#)
- 11.1* [Code of Business Conduct and Ethics of Dogness \(International\) Corporation \(incorporated by reference to registration statement on Form F-1, no. 333-220547\)](#)
- 12.1 [Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Securities and Exchange Commission Release 34-46427 \(filed herewith\)](#)
- 12.2 [Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Securities and Exchange Commission Release 34-46427 \(filed herewith\)](#)
- 13.1 [Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(filed herewith\)](#)
- 13.2 [Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(filed herewith\)](#)
- 15.1 [Consent of Audit Alliance LLP \(filed herewith\)](#)
- 15.2 [Consent of Prager Metis CPAs, LLC \(filed herewith\)](#)
- 23.1 [Consent of Guangdong Jiamao Law Firm](#)
- 99.1 [Press release dated October 11, 2023 titled "Dogness Reports Financial Results for Fiscal Year Ended June 30, 2023"](#)

* Previously filed.

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.

Dogness (International) Corporation

Date: October 11, 2023

By: /s/ Silong Chen

Name: Silong Chen

Title: Chief Executive Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Dogness (International) Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Dogness (International) Corporation and its subsidiaries (collectively, the “Company”) as of June 30, 2023 and 2022, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the two-year period ended June 30, 2023, and the related notes to the consolidated financial statements and schedule (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended June 30, 2023, 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 PCAOB and are required to be independent with respect to the Company in accordance with 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 audits 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/ Audit Alliance LLP

We have served as the Company’s auditor since 2022.
Singapore
October 11, 2023
PCAOB ID Number 3487

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
Dogness (International) Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Dogness (International) Corporation (the “Company”) as of June 30, 2021, and the related consolidated statements of comprehensive income (loss), changes in stockholders’ equity and cash flows for the year ended June 30, 2021, and 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 June 30, 2021, and the results of its operations and its cash flows the year ended June 30, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Prager Metis CPAs, LLC

We have served as the Company’s auditor from 2021 to 2022.

Hackensack, New Jersey
October 29, 2021
PCAOB ID Number 273

Prager Metis CPAs, LLC

401 HACKENSACK AVENUE
4TH FLOOR
HACKENSACK, NJ 07601

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An affiliate of Prager Metis International

NORTH AMERICA

EUROPE

ASIA

DOGNESS (INTERNATIONAL) CORPORATION
CONSOLIDATED BALANCE SHEETS
(All amounts in USD)

| | As of June 30, 2023 | As of June 30, 2022 |
|---|------------------------|------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 4,483,308 | \$ 16,605,872 |
| Short-term investments | - | 52,255 |
| Accounts receivable from third-party customers, net | 1,492,762 | 1,649,169 |
| Accounts receivable from related parties | 1,272,384 | 1,094,855 |
| Inventories, net | 2,679,275 | 3,369,885 |
| Due from related parties | 87,430 | 105,403 |
| Prepayments and other current assets | 3,748,955 | 477,237 |
| Advances to supplier- related party | 239,729 | - |
| Total current assets | 14,003,843 | 23,354,676 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment, net | 61,686,849 | 68,447,612 |
| Operating lease right-of-use lease assets | 17,537,096 | 4,589,678 |
| Intangible assets, net | 1,845,006 | 2,063,417 |
| Long-term investments in equity investees | 1,516,900 | 1,642,300 |
| Deferred tax assets | 1,281,634 | 699,039 |
| Total non-current assets | 83,867,485 | 77,442,046 |
| TOTAL ASSETS | \$ 97,871,328 | \$ 100,796,722 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES | | |
| Short-term bank loans | \$ 887,000 | \$ 564,000 |
| Current portion of long term bank loans | 2,959,918 | 1,386,160 |
| Accounts payable | 895,694 | 1,033,476 |
| Accounts payable – related parties | - | 393,625 |
| Due to related parties | 85,843 | 130,468 |
| Advances from customers | 121,687 | 151,462 |
| Taxes payable | 1,015,444 | 1,557,661 |
| Accrued expenses and other current liabilities | 1,026,218 | 1,083,469 |
| Operating lease liabilities, current | 2,326,162 | 184,700 |
| Total current liabilities | 9,317,966 | 6,485,021 |
| NON-CURRENT LIABILITIES | | |
| Long term bank loans | 1,595,549 | 4,934,374 |
| Operating lease liabilities, non-current | 10,612,508 | 901,351 |
| Total non-current liabilities | 12,208,057 | 5,835,725 |
| TOTAL LIABILITIES | \$ 21,526,023 | \$ 12,320,746 |
| Commitments and Contingencies (Note 10) | | |
| EQUITY | | |
| Common shares, \$0.002 par value, 90,931,000 Class A shares and 19,069,000 Class B shares authorized, 31,055,259 class A shares and 30,205,259 class A shares issued and outstanding as of June 30, 2023 and 2022, respectively. 9,069,000 class B shares and 9,069,000 class B shares issued and outstanding as of June 30, 2023 and 2022, respectively. | | |
| Class A Common shares | 62,110 | 60,410 |
| Class B Common shares | 18,138 | 18,138 |
| Additional paid-in capital | 85,654,468 | 84,096,866 |
| Statutory reserve | 291,443 | 291,443 |
| Retained earnings | 664,004 | 7,864,267 |
| Accumulated other comprehensive loss | (10,345,832) | (4,152,577) |
| Equity attributable to owners of the Company | 76,344,331 | 88,178,547 |
| Non-controlling interest | 974 | 297,429 |
| Total equity | 76,345,305 | 88,475,976 |
| TOTAL LIABILITIES AND EQUITY | \$ 97,871,328 | \$ 100,796,722 |

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

DOGNESS (INTERNATIONAL) CORPORATION
STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(All amounts in USD)

| | For the Years Ended June 30, | | |
|---|------------------------------|---------------------|---------------------|
| | 2023 | 2022 | 2021 |
| Revenues- third party customers | \$ 15,884,281 | \$ 24,882,618 | \$ 23,112,435 |
| Revenues – related parties | 1,700,173 | 2,212,579 | 1,207,686 |
| Total Revenues | <u>17,584,454</u> | <u>27,095,197</u> | <u>24,320,121</u> |
| Cost of revenues – third party customers | (12,760,852) | (15,654,952) | (14,501,166) |
| Cost of revenues – related parties | (1,162,314) | (1,301,180) | (663,742) |
| Total cost of revenues | <u>(13,923,166)</u> | <u>(16,956,132)</u> | <u>(15,164,908)</u> |
| Gross Profit | <u>3,661,288</u> | <u>10,139,065</u> | <u>9,155,213</u> |
| Operating expenses: | | | |
| Selling expenses | 2,478,163 | 2,077,174 | 1,815,771 |
| General and administrative expenses | 9,800,714 | 6,742,687 | 4,941,036 |
| Research and development expenses | 931,078 | 917,227 | 540,613 |
| Loss from disposal of property, plant and equipment | 15,306 | 327,921 | - |
| Total operating expenses | <u>13,225,261</u> | <u>10,065,009</u> | <u>7,297,420</u> |
| (Loss) income from operations | <u>(9,563,973)</u> | <u>74,056</u> | <u>1,857,793</u> |
| Other income: | | | |
| Interest expense, net | (330,824) | (370,108) | (264,408) |
| Foreign exchange transaction gain (loss) | 800,403 | 246,211 | (228,260) |
| Other income, net | 112,109 | 115,016 | 215,233 |
| Rental income from related parties, net | 295,362 | 173,089 | 354,968 |
| Gain from disposition of a subsidiary | - | - | 5,162 |
| Total other income | <u>877,050</u> | <u>164,208</u> | <u>82,695</u> |
| (Loss) income before income taxes | (8,686,923) | 238,264 | 1,940,488 |
| Income taxes (benefit) expense | <u>(1,227,449)</u> | <u>(2,777,868)</u> | <u>641,460</u> |
| Net (loss) income | <u>(7,459,474)</u> | <u>3,016,132</u> | <u>1,299,028</u> |
| Less: net loss attributable to non-controlling interest | <u>(259,211)</u> | <u>(219,427)</u> | <u>(213,336)</u> |
| Net (loss) income attributable to Dogness (International) Corporation | <u>(7,200,263)</u> | <u>3,235,559</u> | <u>1,512,364</u> |
| Other comprehensive (loss) income: | | | |
| Foreign currency translation (loss) income | (6,204,254) | (3,203,448) | 4,879,315 |
| Comprehensive income (loss) | <u>(13,663,728)</u> | <u>(187,316)</u> | <u>6,178,343</u> |
| Less: comprehensive loss attributable to non-controlling interest | <u>(270,210)</u> | <u>(230,583)</u> | <u>(161,701)</u> |
| Comprehensive(loss) income attributable to Dogness (International) Corporation | <u>\$ (13,393,518)</u> | <u>\$ 43,267</u> | <u>\$ 6,340,044</u> |
| Loss earnings per share | | | |
| Basic | <u>\$ (0.18)</u> | <u>\$ 0.10</u> | <u>\$ 0.05</u> |
| Diluted | <u>\$ (0.18)</u> | <u>\$ 0.10</u> | <u>\$ 0.05</u> |
| Weighted Average Shares Outstanding | | | |
| Basic | <u>39,668,780</u> | <u>33,711,659</u> | <u>27,499,367</u> |
| Diluted | <u>39,668,780</u> | <u>34,013,634</u> | <u>27,554,811</u> |

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

DOGNESS (INTERNATIONAL) CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2023, 2022 AND 2021
(All amounts in USD)

| | Common Stock | | | | Additional Paid in Capital | Statutory Reserves | Retained Earnings | Accumulated Other Comprehensive Loss | Non- controlling Interest | Total |
|---|-------------------|---------------|------------------|---------------|----------------------------------|-----------------------|----------------------|---|---------------------------------|-------------------|
| | Class A | Amount | Class B | Amount | | | | | | |
| Balance at June 30, 2020 | 16,844,631 | \$ 33,689 | 9,069,000 | \$ 18,138 | \$53,221,610 | \$ 191,716 | \$ 3,216,071 | \$ (5,787,965) | \$ 614,669 | \$51,507,928 |
| Capital contribution made by non-controlling shareholders | - | - | - | - | - | - | - | - | 104,190 | 104,190 |
| Net income for the year | - | - | - | - | - | - | 1,512,364 | - | (213,336) | 1,299,028 |
| Disposition of a subsidiary | - | - | - | - | - | - | - | - | (29,146) | (29,146) |
| Issuance shares for private placement | 3,455,130 | 6,910 | - | - | 6,604,522 | - | - | - | - | 6,611,432 |
| Options granted for services | - | - | - | - | 142,158 | - | - | - | - | 142,158 |
| Issuance shares for services | 250,000 | 500 | - | - | 387,000 | - | - | - | - | 387,500 |
| Stock option exercised | 6,053 | 12 | - | - | (12) | - | - | - | - | - |
| Statutory reserve | - | - | - | - | - | 99,727 | (99,727) | - | - | - |
| Foreign currency translation gain | - | - | - | - | - | - | - | 4,827,680 | 51,635 | 4,879,315 |
| Balance at June 30, 2021 | 20,555,814 | \$ 41,111 | 9,069,000 | \$ 18,138 | \$60,355,278 | \$ 291,443 | \$ 4,628,708 | \$ (960,285) | \$ 528,012 | \$64,902,405 |
| Issuance shares for Private placement | 7,780,736 | 15,561 | - | - | 19,109,359 | - | - | - | - | 19,124,920 |
| Exercise of warrants | 1,645,959 | 3,292 | - | - | 4,440,844 | - | - | - | - | 4,444,136 |
| Share option exercised | 222,750 | 446 | - | - | 179,554 | - | - | - | - | 180,000 |
| Options granted for services | - | - | - | - | 11,831 | - | - | - | - | 11,831 |
| Net income for the year | - | - | - | - | - | - | 3,235,559 | - | (219,427) | 3,016,132 |
| Foreign currency translation loss | - | - | - | - | - | - | - | (3,192,292) | (11,156) | (3,203,448) |
| Balance at June 30, 2022 | 30,205,259 | \$ 60,410 | 9,069,000 | \$ 18,138 | \$84,096,866 | \$ 291,443 | \$ 7,864,267 | \$ (4,152,577) | \$ 297,429 | \$88,475,976 |
| Adjustment relating to non-controlling interest | - | - | - | - | - | - | - | - | (26,245) | (26,245) |
| Share-based compensation for services | 850,000 | 1,700 | - | - | 1,557,602 | - | - | - | - | 1,559,302 |
| Net loss for the year | - | - | - | - | - | - | (7,200,263) | - | (259,211) | (7,459,474) |
| Foreign currency translation loss | - | - | - | - | - | - | - | (6,193,255) | (10,999) | (6,204,254) |
| Balance at June 30, 2023 | <u>31,055,259</u> | <u>62,110</u> | <u>9,069,000</u> | <u>18,138</u> | <u>85,654,468</u> | <u>291,443</u> | <u>664,004</u> | <u>(10,345,832)</u> | <u>974</u> | <u>76,345,305</u> |

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

DOGNESS (INTERNATIONAL) CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts in USD)

| | For the Years Ended June 30, | | |
|---|-------------------------------------|----------------------|---------------------|
| | 2023 | 2022 | 2021 |
| Cash flows from operating activities: | | | |
| Net (loss) income | \$ (7,459,474) | \$ 3,016,132 | \$ 1,299,028 |
| <i>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</i> | | | |
| Amortization of operating lease right-of-use lease assets | 1,023,500 | 408,566 | 399,903 |
| Depreciation and amortization | 3,315,172 | 3,458,347 | 3,106,082 |
| Loss (gain) from disposition of property, plant and equipment | 15,306 | 327,921 | (85,899) |
| Gain from disposition of a subsidiary | - | - | (5,162) |
| Share-based compensation for services | 1,243,385 | 11,831 | 249,797 |
| Change in inventory reserve | 246,281 | - | 117,703 |
| Change in bad debt allowance | 160,254 | (16,776) | - |
| Deferred tax benefit | (658,595) | (118,424) | (478,316) |
| Accrued interest income | - | (1,320) | - |
| Forgiveness of PPP loan | - | - | (73,300) |
| Unrealized foreign exchange loss | - | - | 43,852 |
| <i>Changes in operating assets and liabilities:</i> | | | |
| Accounts receivables | (109,090) | 683,119 | (319,598) |
| Accounts receivables-related parties | (272,301) | (620,728) | (206,774) |
| Inventories | 268,593 | 740,265 | (1,212,224) |
| Prepayments and other current assets | (3,113,841) | 1,173,662 | 246,898 |
| Advances to supplier- related party | (249,986) | - | - |
| Accounts payables | (62,237) | 224,676 | 75,740 |
| Accounts payables-related parties | (379,124) | 58,190 | 15,445 |
| Advance from customers | (18,989) | (52,365) | 43,622 |
| Taxes payable | (441,390) | (2,827,106) | 1,325,835 |
| Accrued expenses and other liabilities | 34,381 | (137,457) | (619,179) |
| Operating lease liabilities | (2,444,110) | (168,075) | (171,221) |
| Net cash (used in) provided by operating activities | (8,902,265) | 6,160,458 | 3,752,232 |
| Cash flows from investing activities: | | | |
| Purchase of property, plant and equipment | (1,520,556) | (15,259,272) | (777,762) |
| Proceeds from disposition of property, plant and equipment | 14,872 | 22,213 | 184,760 |
| Capital expenditures on construction-in-progress | - | - | (13,668,099) |
| Long-term investments in equity investees | - | - | (241,600) |
| Proceeds upon maturity of short-term investments | 50,330 | 495,680 | 3,257,070 |
| Net cash used in investing activities | (1,455,354) | (14,741,379) | (11,245,631) |
| Cash flows from financing activities: | | | |
| Net proceeds from private placement | - | 19,124,920 | 6,611,432 |
| Capital contribution made by non-controlling shareholders | - | - | 104,190 |
| Adjustment relating to non-controlling interest | (26,245) | - | - |
| Net Proceeds from exercise of warrants | - | 4,444,136 | - |
| Net Proceeds from exercise of options | - | 180,000 | - |
| Proceeds from short-term bank loans | 483,000 | 804,000 | 349,771 |
| Repayment of short-term bank loans | (160,000) | (944,446) | (5,075,325) |
| Proceeds from long-term bank loan | - | - | 7,550,000 |
| Repayment of long-term bank loans | (1,337,323) | (796,416) | (381,133) |
| (Repayment of) proceeds from related party loans | (25,796) | (1,943,408) | 1,892,636 |
| Net cash (used in) provided by financing activities | (1,066,364) | 20,868,786 | 11,051,571 |
| Effect of exchange rate changes on cash | (698,581) | (617,747) | 110,709 |
| Net (decrease) increase in cash | (12,122,564) | 11,670,118 | 3,668,881 |
| Cash and restricted cash, beginning of year | 16,605,872 | 4,935,754 | 1,266,873 |
| Cash and restricted cash, end of year | \$ 4,483,308 | \$ 16,605,872 | \$ 4,935,754 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Cash paid (refunded) for income tax | \$ (2,593) | \$ 3,195 | \$ (25,545) |
| Cash paid for interest | \$ 396,517 | \$ 471,443 | \$ 460,905 |
| Non-Cash Investing Activities | | | |
| Transfer from construction-in-progress to fixed assets | \$ - | \$ 597,594 | \$ 34,984,435 |
| (Reductions) additions to construction-in-progress through accounts payable and other payable | \$ (8,167) | \$ - | \$ 10,528,918 |

| | | | | | | |
|---|----|---------|----|---|----|---------|
| Prepaid share-based compensation for services | \$ | 315,917 | \$ | - | \$ | 279,861 |
| Transfer from accounts receivable to long-term investment | \$ | - | \$ | - | \$ | 302,000 |

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

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Dogness (International) Corporation (“Dogness” or the “Company”), is a company limited by shares established under the laws of the British Virgin Islands (“BVI”) on July 11, 2016 as a holding company. The Company, through its subsidiaries, is primarily engaged in the design, manufacturing and sales of various types of pet leashes, pet collars, pet harnesses, intelligent pet products, and retractable leashes with products being sold all over the world mainly through distributions by large retailers. Mr. Silong Chen, the Chairman of the Board and Chief Executive Officer (“CEO”) of the Company is the controlling shareholder (the “Controlling Shareholder”) of the Company by virtue of his ownership of 9,069,000 Class B common shares, which carry three votes per share and, in the aggregate have more than half of the voting power of all common shares.

Reorganization

A Reorganization of the legal structure was completed on January 9, 2017. The Reorganization involved the incorporation of Dogness, a BVI holding company; and Dogness Intelligence Technology (Dongguan) Co., Ltd. (“Dongguan Dogness”), a holding company established under the laws of the People’s Republic of China (“PRC”); and the transfer of Dogness (Hong Kong) Pet’s Products Co., Limited (“HK Dogness”), Jiasheng Enterprise (Hong Kong) Co., Limited (“HK Jiasheng”), and Dongguan Jiasheng Enterprise Co., Ltd. (“Dongguan Jiasheng”; collectively, the “Transferred Entities”) from the Controlling Shareholder to Dogness and Dongguan Dogness. Prior to the reorganization, the Transferred Entities’ equity interests were 100% controlled by the Controlling Shareholder. On November 24, 2016, the Controlling Shareholder transferred his 100% ownership interest in Dongguan Jiasheng to Dongguan Dogness, which is 100% owned by HK Dogness and considered a wholly foreign-owned entity (“WFOE”) in PRC. On January 9, 2017, the Controlling Shareholder transferred his 100% equity interests in HK Dogness and HK Jiasheng to Dogness. After the reorganization, Dogness ultimately owns 100% equity interests of the entities mentioned above.

Since the Company and its wholly-owned subsidiaries are effectively controlled by the same Controlling Shareholder before and after the reorganization, they are considered under common control. The above-mentioned transactions were accounted for as a recapitalization. The consolidation of the Company and its subsidiaries has been accounted for at historical cost and prepared on the basis as if the aforementioned transactions had become effective as of the beginning of the first period presented in the accompanying consolidated financial statements.

On December 18, 2017, the Company completed its initial public offering (“IPO”) of 10,913,631 Class A common shares at a public offering price of \$5.00 per share. In connection with the offering, the Company’s Class A common shares began trading on the NASDAQ Global Market on December 20, 2017 under the symbol “DOGZ.”

In January 2018, the Company formed a Delaware limited liability company, Dogness Group LLC (“Dogness Group”), with its operation focusing primarily on pet product sales in the U.S. In February 2018, Dogness Overseas Ltd (“Dogness Overseas”) was established in the British Virgin Islands as a holding company. Dogness Overseas owns all of the interests in Dogness Group.

On March 16, 2018 (the “Acquisition Date”), the Company entered into a share purchase agreement to acquire 100% of the equity interests in Zhangzhou Meijia Metal Product Co., Ltd (“Meijia”) from its original shareholder, Long Kai (Shenzhen) Industrial Co., Ltd (“Longkai”), for a total cash consideration of approximately RMB71 million (\$11.1 million) (the “Acquisition”). After the acquisition, Meijia became the Company’s wholly-owned subsidiary.

On July 6, 2018, Dogness Intelligence Technology Co., Ltd. (“Intelligence Guangzhou”) was incorporated under the laws of PRC in Guangzhou City of Guangdong Province in China with a total registered capital of RMB80 million (approximately \$11.0 million). One of the Company’s subsidiaries, Dongguan Jiasheng, owns 58% of Intelligence Guangzhou, with the remaining 42% ownership interest owned by two unrelated entities. Intelligence Guangzhou had immaterial operation since its inception and will conduct research and manufacturing of the Company’s fast-growing intelligent pet products in the future. Due to the fact that Intelligence Guangzhou has no business activities since the incorporation and Dongguan Jiasheng has not made any capital contribution, in August 2022, the Board approved to sell the Company’s 58% ownership interest in Intelligence Guangzhou to a third party for a nominal price. The transaction was completed on August 10, 2022.

Dogness Pet Culture (Dongguan) Co., Ltd. (“Dogness Culture”) was incorporated on December 14, 2018 with registered capital of RMB 10 million (approximately \$1.5 million). The capital was not paid by the original shareholder and there were no active business operations. On January 15, 2020, the Company’s subsidiary, Dongguan Dogness, entered into an agreement with the original shareholder of Dogness Culture, who is a relative of Mr. Silong Chen, the Chief Executive Officer, to acquire 51.2% ownership interest of Dogness Culture for a nominal fee. The remaining equity interest of 48.8% was also transferred to other two third parties for a nominal fee. Dongguan Dogness thereafter contributed cash consideration of RMB5.12 million (approximately \$0.79 million) on April 16, 2020 along with other two shareholders’ capital contributions of RMB4.88 million (approximately \$0.76 million). Dogness Culture will mainly focus on developing and expanding pet food market and pet related service in China. On July 19, 2023, the Board approved the liquidation, dissolution, and termination of Dogness culture following the signing of a termination agreement among Dogness’s Culture’s shareholders on May 8, 2023.

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and have been consistently applied.

The Company’s consolidated financial statements reflect the operating results of the following entities:

| Name of Entity | Date of Incorporation | Place of Incorporation | % of Ownership | Principal Activities |
|---|-----------------------|-------------------------|----------------|--|
| Dogness (International) Corporation (“Dogness” or the “Company”) | July 11, 2016 | BVI | Parent, 100% | Holding Company |
| Dogness (Hongkong) Pet’s Products Co., Limited (“HK Dogness”) | March 10, 2009 | Hong Kong | 100% | Trading |
| Jiasheng Enterprise (Hong Kong) Co., Limited (“HK Jiasheng”) | July 12, 2007 | Hong Kong | 100% | Trading |
| Dogness Intelligence Technology (Dongguan) Co., Ltd. (“Dongguan Dogness”) | October 26, 2016 | Dongguan, China | 100% | Holding Company |
| Dongguan Jiasheng Enterprise Co., Ltd. (“Dongguan Jiasheng”) | May 15, 2009 | Dongguan, China | 100% | Development and manufacturing of pet leash products |
| Zhangzhou Meijia Metal Product Co., Ltd (“Meijia”) | July 9, 2009 | Zhangzhou, China | 100% | Manufacturing of pet leash products |
| Dogness Overseas Ltd (“Dogness Overseas”) | February 8, 2018 | BVI | 100% | Holding Company |
| Dogness Group LLC (“Dogness Group”) | January 23, 2018 | Delaware, United States | 100% | Pet products trading |
| Dogness Intelligence Technology Co., Ltd. (“Intelligence Guangzhou”)* | July 6, 2018 | Guangzhou, China | 58% | Research and manufacturing of intelligent pet products |
| Dogness Pet Culture (Dongguan) Co. Ltd. (“Dogness Culture”) | December 14, 2018 | Dongguan, China | 51.2% | Developing and expanding pet food market |

*Due to the fact that Intelligence Guangzhou has no business activities since the incorporation and Dongguan Jiasheng has not made the capital contribution, in August 2022, the Board approved to sell the Company’s 58% ownership interest in Dogness Intelligence Technology Co., Ltd. to a third party for a nominal price. The transaction was completed on August 10, 2022. Because Intelligence Guangzhou has not commenced any operation since inception, management determined that this disposition did not represent a strategic shift and had no significant effect on the Company’s operations and financial results; therefore, no discontinued operations were presented.

Non-controlling interests

As of June 30, 2023, non-controlling interests represent 48.8% non-controlling shareholders’ interests in Dogness Culture, respectively. The non-controlling interests are presented in the consolidated balance sheets, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the operating results of the Company are presented on the face of the consolidated statements of comprehensive income (loss) as an allocation of the total income or loss between non-controlling interest holders and the shareholders of the Company.

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

In preparing the consolidated financial statements in conformity with US GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information as of the date of the consolidated financial statements. Significant estimates required to be made by management include, but are not limited to, the valuation of accounts receivable, inventories, advances to suppliers, useful lives of property, plant, right-of-use assets (including lease liabilities) and equipment, intangible assets, the recoverability of long-lived assets, provision necessary for contingent liabilities, and realization of deferred tax assets. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investment instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. The Company maintains most of its bank accounts in the PRC. Cash balances in bank accounts in PRC are not insured by the Federal Deposit Insurance Corporation or other programs.

Short-term Investments

The Company's short-term investments consist of wealth management financial products purchased from PRC banks with maturities between one month to twelve months. The banks invest the Company's fund in certain financial instruments including money market funds, bonds or mutual funds, with rates of return on these investments ranging from 1.5% to 3.8% per annum. The carrying values of the Company's short-term investments approximate fair value because of their short-term maturities. The interest earned is recognized in the consolidated statements of comprehensive income (loss) over the contractual term of these investments.

The Company had short-term investments of \$Nil and \$52,255 as of June 30, 2023 and 2022, respectively. The Company recorded interest income of \$13,190, \$1,385 and \$48,058 for the years ended June 30, 2023, 2022 and 2021, respectively.

Accounts Receivable, net

Accounts receivable are presented net of allowance for doubtful accounts. The Company usually determines the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which requires the Company to measure and recognize expected credit losses for financial assets held and not accounted for at fair value through net income. The Company adopted this guidance effective January 1, 2023. The Company establishes a provision for doubtful receivables based on management's best estimates of specific losses on individual exposures, as well as a provision on historical trends of collections. The provision is recorded against accounts receivables balances, with a corresponding charge recorded in the consolidated statements of income and comprehensive income. Delinquent account balances are written-off against the allowance for doubtful accounts after management has determined that the likelihood of collection is not probable. Allowance for uncollectible balances amounted to \$160,026 and \$6,872 as of June 30, 2023 and 2022.

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories, net

Inventories are stated at net realizable value using the weighted average method. Costs include the cost of raw materials, freight, direct labor and related production overhead. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories.

Net realizable value is the estimated selling price in the normal course of business less any costs to complete and sell products. The Company evaluates inventories on a quarterly basis for its net realizable value adjustments, and reduces the carrying value of those inventories that are obsolete or in excess of the forecasted usage to their estimated net realizable value based on various factors including aging and future demand of each type of inventories.

Prepayments and other assets

Prepayments and other assets primarily consist of advances to suppliers for purchasing of raw materials that have not been received, and prepayment to a landlord for lease of a piece of land in order to build a warehouse in the near future, prepaid service fee, security deposits. These advances are interest free, unsecured and short-term in nature and are reviewed periodically to determine whether their carrying value has become impaired.

Property, Plant and Equipment, net

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. The straight-line depreciation method is used to compute depreciation over the estimated useful lives of the assets, as follows:

| | Useful life |
|--------------------------------|-------------------------------------|
| Buildings | 10-50 years |
| Leasehold improvement | Lesser of useful life or lease term |
| Machinery and equipment | 5-10 years |
| Automobiles | 5 years |
| Office equipment and furniture | 5 years |

Expenditures for maintenance and repairs, which do not materially extend the useful lives of the assets, are charged to expense as incurred. Expenditures for major renewals and betterments that substantially extend the useful life of assets are capitalized. The cost and related accumulated depreciation of assets retired or sold are removed from the respective accounts, and any gain or loss is recognized in the consolidated statements of other comprehensive income (loss) in other income or expenses.

Intangible Assets, net

Intangible assets consist primarily of a customized software system purchased from a third-party vendor, used for accounting and production management and land use rights. Under PRC law, all land in the PRC is owned by the government and cannot be sold to an individual or company. The government grants individuals and companies the right to use parcels of land for specified periods of time. These land use rights are sometimes referred to informally as “ownership.”

Intangible assets are stated at cost less accumulated amortization. Customized software systems are amortized using the straight-line method over the estimated useful economic life of 10 years. Land use rights are amortization using the straight-line method over the estimated useful life of 50 years, which is determined in connection with the term of the land use rights.

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term Investments in Equity Investees

On July 1, 2018, the Company adopted Accounting Standards Codification (“ASC”) 321 “Investments—Equity Securities” (“ASC 321”). In accordance with ASC 321, equity securities over which the Company has no significant influence (generally less than a 20% ownership interest) with readily determinable fair values are accounted for at fair value based on quoted market prices. Equity securities without readily determinable fair values are accounted for either at fair value or using the measurement alternative. Under the measurement alternative, the equity investments are measured at cost, less any impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the Company.

Nanjing Rootaya Intelligence Technology Co., Ltd. (“Nanjing Rootaya”) is an entity incorporated on March 25, 2015 in the PRC and is primarily engaged in development of smart pet products. In July 2018, the Company entered into an equity investment agreement with Nanjing Rootaya to invest RMB1.25 million (\$172,375) for 10% of the ownership interest in Nanjing Rootaya, with the remaining 90% of the ownership interest owned by three unrelated shareholders.

Dogness Network Technology Co., Ltd (“Dogness Network”) is an entity incorporated on November 17, 2017 in the PRC and is engaged in the development and sales of smart pet products. In November 2018, the Company entered into an equity investment agreement with Dogness Network to invest RMB8.0 million (\$1,103,200) for 10% of the ownership interest in Dogness Network, with the remaining 90% of the ownership interest owned by an unrelated shareholder.

Linsun Smart Technology Co., Ltd (“Linsun”) is an entity incorporated on January 25, 2018 in the PRC and is engaged in development and sales of smart pet products. In November 2018, the Company entered into an equity investment agreement with Linsun to invest RMB3.0 million (\$413,700) for 13% of the ownership interest in Linsun, with the remaining 87% of the ownership interest owned by three unrelated shareholders.

The purpose of entering into these equity investment agreements with Nanjing Rootaya, Dogness Network and Linsun was to establish cooperative business with these investees to jointly develop and distribute the Company’s intelligent smart pet products. The Company accounts for the above-mentioned investments using the measurement alternative in accordance with ASC 321.

The Company records the cost method investments at historical cost and subsequently records any dividends received from the net accumulated earnings of the investee as income. Dividends received in excess of earnings are considered a return of investment and are recorded as reductions in the cost of the investments. Investment in equity investees is evaluated for impairment when facts or circumstances indicate that the fair value of the investment is less than its carrying value. An impairment is recognized when a decline in fair value is determined to be other-than-temporary. The Company reviews several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to, the: (i) nature of the investment; (ii) cause and duration of the impairment; (iii) extent to which fair value is less than cost; (iv) financial condition and near term prospects of the investments; and (v) ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Due to the fact that Nanjing Rootaya reported significant net loss and working capital deficit, and is unable to generate positive cash flow in the foreseeable future. A full impairment loss has been applied against this investment in fiscal 2020. For the Company’s investments in Dogness Network and Linsun, no material impairment indicator was noted because their operation results indicated net income and cash inflows.

As of June 30, 2023 and 2022, the Company’s long-term investments in equity investees amounted to \$1,516,900 and \$1,642,300, respectively.

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

ASC 825-10 requires certain disclosures regarding the fair value of financial instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted market prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable and inputs derived from or corroborated by observable market data.
- Level 3 - inputs to the valuation methodology are unobservable.

Unless otherwise disclosed, the fair value of the Company's financial instruments including cash, short-term investments, accounts receivable, and other current assets, accounts payable, advance from customers, accrued expenses and other current liabilities, current portion of lease liabilities, and short-term bank loans approximate their fair values because of the short-term nature of these instruments. The Company's long-term investments are accounted for using the measurement alternative in accordance with ASC 321, which also approximate their recorded values.

Long-lived assets impairment

The Company reviews long-lived assets, including definitive-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the estimated cash flows from the use of the asset and its eventual disposition are below the asset's carrying value, then the asset is deemed to be impaired and written down to its fair value. No impairment was recorded for the years ended June 30, 2023, 2022 and 2021.

Leases

The Company is the lessee in a lease contract when the Company obtains the right to use the asset. Operating leases are included in the line items right-of-use asset, lease liabilities, current, and lease liabilities, long-term in the consolidated balance sheet.

Right-of-use ("ROU") asset represents the Company's right to use an underlying asset for the lease term and lease obligations represent the Company's obligations to make lease payments arising from the lease, both of which are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Leases with a lease term of 12 months or less at inception are not recorded on the consolidated balance sheet and are expensed on a straight-line basis over the lease term in the consolidated statement of operations and comprehensive loss. The Company determines the lease term by agreement with lessor. As the Company's lease does not provide implicit interest rate, the Company uses the Company's incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Refer to Note 7 for further discussion.

Rental income

Rental revenues are recognized as earned in accordance with the terms of the respective lease agreement on a straight-line basis. Promotional discounts are recognized as a reduction to rental income over the promotional period. Late charges, administrative fees and other fees are recognized as income when earned. Management reviews the tenant's payment history and financial condition periodically in determining, in its judgment, whether any accrued rental income and unbilled rent receivable balances applicable to each specific property is collectable.

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

On July 1, 2018, the Company adopted ASC 606 Revenue from Contracts with Customers, using the modified retrospective approach. ASC 606 establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

To determine revenue recognition for contracts with customers, the Company performs the following five steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will *not* occur, (iv) allocate the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) the Company satisfies the performance obligation.

Revenue is recognized when obligations under the terms of a contract with the Company's customers are satisfied. Satisfaction of contract terms occur with the transfer of title of the Company's products to the customers. Net sale is measured as the amount of consideration the Company expects to receive in exchange for transferring the goods to the wholesaler and retailers.

The amount of consideration the Company expects to receive consists of the sales price adjusted for any incentives if applicable. Such incentives do not represent a standalone value and are accounted for as a reduction of revenue in accordance with ASC 606. For the years ended June 30, 2023, 2022 and 2021, the Company did not provide any sales incentives to its customers.

Incidental promotional items that are immaterial in the context of the contract are recognized as expense. Fees charged to customers for shipping and handling are included in net sales and the related costs incurred by the Company are included in cost of goods sold. In applying judgment, the Company considered customer expectations of performance, materiality and the core principles of ASC Topic 606. The Company's performance obligations are generally transferred to the customer at a point in time. The Company's contracts with customers generally do not include any variable consideration.

The Company's revenue is primarily generated from the sales of pet products, including leashes, accessories, collars, harnesses and intelligent pet products, to wholesalers and retailers. Revenue is reported net of all value added taxes ("VAT"). The Company does not routinely permit customers to return products and historically, customer returns have been immaterial.

The Company also generates revenue by providing ribbon dyeing service and pet grooming services to customers. The Company utilizes its manufacturing capability and color dyeing technology to provide dyeing solutions to customers and apply dyes or pigments on ribbons made of textile materials such as fibers, yarns and fabrics to achieve customer desired color fastness and quality. The Company recognizes revenue at the point when dyeing solutions and related services are rendered, products after dyeing are delivered and accepted by the customers. The revenue from pet grooming services is recognized when the services are rendered.

Contract Assets and Liabilities

Payment terms are established on the Company's pre-established credit requirements based upon an evaluation of customers' credit quality. Contract assets are recognized for in related accounts receivable. Contract liabilities are recognized for contracts where payment has been received in advance of delivery. The contract liability balance can vary significantly depending on the timing of when an order is placed and when shipment or delivery occurs.

As of June 30, 2023 and 2022, other than accounts receivable and advances from customers, the Company had no other material contract assets, contract liabilities or deferred contract costs recorded on its consolidated balance sheet. Costs of fulfilling customers' purchase orders, such as shipping, handling and delivery, which occur prior to the transfer of control, are recognized in selling, general and administrative expense when incurred.

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition(continued)

Disaggregation of Revenues

The Company disaggregates its revenue from contracts by product and service types and geographic areas, as the Company believes it best depicts how the nature, amount, timing and uncertainty of the revenue and cash flows are affected by economic factors. The Company's disaggregation of revenues for the years ended June 30, 2023, 2022 and 2021 are disclosed in Note 15 of this consolidated financial statements.

Research and development costs

Research and development expenses include costs directly attributable to the conduct of research and development projects, including the cost of salaries and other employee benefits, testing expenses, consumable equipment and consulting fees. All costs associated with research and development are expensed as incurred.

Income Taxes

The Company accounts for current income taxes in accordance with the laws of the relevant tax authorities. Income taxes are accounted for using the asset and liability approach. Under this approach, income tax expense is recognized for the amount of taxes payable or refundable for the current year. Deferred income taxes assets and liabilities are recognized when temporary differences exist between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period including the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. As of June 30, 2023, the years from fiscal 2021 to fiscal 2023 for the Company's PRC subsidiaries remain open for statutory examination by PRC Tax authorities. For the Company's Hong Kong subsidiaries, and U.S subsidiary, all tax years remain open for statutory examination by relevant tax authorities.

Value added tax ("VAT")

Sales revenue represents the invoiced value of goods, net of VAT. The VAT is based on gross sales price and VAT rates range up to 17% (starting from May 1, 2018, VAT rate was lowered to 16%, and starting from April 1, 2019, VAT rate was further lowered to 13%), depending on the type of products sold. The VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing or acquiring its finished products. The Company recorded a VAT payable or receivable net of payments in the accompanying consolidated financial statements. Further, when exporting goods, the exporter is entitled to some or all of the refund of the VAT paid or assessed.

Since significant amount of the Company's products are exported to the U.S. and Europe, the Company is eligible for VAT refunds when the Company completes all the required tax filing procedures. All of the VAT returns of the Company have been and remain subject to examination by the tax authorities for five years from the date of filing.

(Loss) Earnings per Share

The Company computes earnings per share ("EPS") in accordance with ASC 260, "Earnings per Share" ("ASC 260"). ASC 260 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as net income (loss) divided by the weighted average common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of potential common shares (e.g., convertible securities, options and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-Based compensation

The Company follows the provisions of ASC 718, “Compensation - Stock Compensation,” which establishes the accounting for employee share-based awards. For employee share-based awards, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense with graded vesting on a straight-line basis over the requisite service period for the entire award.

Foreign Currency Translation

The Company’s principal country of operations is the PRC. The financial position and results of the operations of HK Dogness, HK Jiasheng, Dongguan Dogness, Dongguan Jiasheng, Meijia, Intelligence Guangzhou and Dogness Culture are determined using RMB, the local currency, as the functional currency. Dogness Japan uses Japanese Yen as the functional currency, while Dogness Overseas and Dogness Group use U.S Dollar as their functional currency.

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing at the consolidated balance sheet date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All exchange gains or losses arising from translation of these foreign currency transactions are included in net income (loss) for the year.

The Company’s financial statements are reported using U.S. Dollars. The results of operations and the consolidated statements of cash flows denominated in foreign currencies are translated at the average rate of exchange during the reporting period. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange in effect at that date. The equity denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. Because cash flows are translated based on the average translation rate, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets. Translation adjustments arising from the use of different exchange rates from period to period are included as a separate component of accumulated other comprehensive income (loss) included in consolidated statements of changes in equity. Gains and losses from foreign currency transactions are included in the consolidated statement of comprehensive income (loss).

The following table outlines the currency exchange rates that were used in creating the consolidated financial statements:

| | <u>June 30, 2023</u> | <u>June 30, 2022</u> | <u>June 30, 2021</u> | |
|--------------------|----------------------|----------------------|----------------------|-----------------|
| Year-end spot rate | US\$1=RMB7.2513 | US\$1=RMB6.6981 | US\$1=RMB 6.4566 | US\$1=JPY 111.1 |
| Average rate | US\$1=RMB6.9536 | US\$1=RMB6.4554 | US\$1=RMB 6.6221 | US\$1=JPY 106.6 |

Comprehensive income (loss)

Comprehensive income (loss) consists of two components, net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders’ equity but are excluded from net income. Other comprehensive income (loss) consists of a foreign currency translation adjustment resulting from the Company not using the U.S. dollar as its functional currency.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions are measured at the amounts agreed upon by the parties.

Statement of Cash Flows

In accordance with ASC 230, “Statement of Cash Flows,” cash flows from the Company’s operations are formulated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statements of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheets.

DOGNESS (INTERNATIONAL) CORPORATION
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on the reported revenues, net income and cash flows.

Recent Accounting Pronouncements

The Company considers the applicability and impact of all accounting standards updates (“ASUs”). Management periodically reviews new accounting standards that are issued.

In December 2019, the FASB issued ASU No. 2019-12, “Income Taxes” (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”). ASU 2019-12 will simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The adoption of ASU 2019-12 does not have a material impact on its consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) (“ASU 2020-01”), which is intended to clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for the Company beginning January 1, 2021. The adoption of ASU 2019-12 does not have a material impact on its consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-08, “Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers” (“ASU 2021-08”). This ASU requires entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The amendments improve comparability after the business combination by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. The amendments are effective for the Company beginning after December 15, 2023, and are applied prospectively to business combinations that occur after the effective date. The Company does not expect the adoption of ASU 2021-04 to have a material effect on the consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03 Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions. The update clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The update also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The update also requires certain additional disclosures for equity securities subject to contractual sale restrictions. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. As an emerging growth company, the standard is effective for the Company for the year ended December 31, 2025. The Company is in the process of evaluating the impact of the new guidance on its consolidated financial statements.

Except for the above-mentioned pronouncements, there are no new recent issued accounting standards that will have material impact on the consolidated financial statements

DOGNESS (INTERNATIONAL) CORPORATION
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(All amounts in USD)

NOTE 3 – ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|---|--------------------------------------|--------------------------------------|
| Accounts receivable from third-party customers | \$ 1,652,788 | \$ 1,656,041 |
| Less: allowance for doubtful accounts | (160,026) | (6,872) |
| Total accounts receivable from third-party customers, net | <u>1,492,762</u> | <u>1,649,169</u> |
| Add: accounts receivable - related parties | 1,272,384 | 1,094,855 |
| Total accounts receivable, net | <u>\$ 2,765,146</u> | <u>\$ 2,744,024</u> |

Allowance for doubtful accounts amounted to \$160,026 and \$6,872 as of June 30, 2023 and 2022, respectively.

Approximately \$0.8 million (RMB5.7 million) or 48% of the accounts receivable balance as of June 30, 2023 from third-party customers has been collected as of August 31, 2023.

In connection with the Company's long-term investments in equity investees as disclosed in Note 2, the Company sold certain intelligent pet products to related parties Dogness Technology and Dogness Network. The outstanding accounts receivable from these related parties amounted to \$1,272,384 as of June 30, 2023, of which \$164,807 has been collected subsequent to year end (See Note 11).

Allowance for doubtful accounts movement is as follows:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|--|--------------------------------------|--------------------------------------|
| Beginning balance | \$ 6,872 | \$ 26,272 |
| Provision (recovery) | 160,254 | (16,776) |
| Write off | - | (2,366) |
| Foreign currency translation adjustments | (7,100) | (258) |
| Ending balance | <u>\$ 160,026</u> | <u>\$ 6,872</u> |

NOTE 4 – INVENTORIES, NET

Inventories consisted of the following:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|---------------------------|--------------------------------------|--------------------------------------|
| Raw materials | \$ 67,827 | \$ 117,093 |
| Work in process | 265,386 | 876,021 |
| Finished goods | <u>2,727,827</u> | <u>2,523,455</u> |
| | 3,061,040 | 3,516,569 |
| Less: inventory allowance | <u>(381,765)</u> | <u>(146,684)</u> |
| Inventory, net | <u>\$ 2,679,275</u> | <u>\$ 3,369,885</u> |

Inventory includes raw materials, work in progress and finished goods. Finished goods include direct material costs, direct labor costs and manufacturing overhead.

For the years ended June 30, 2023, 2022 and 2021, the Company recorded inventory write down of \$246,281, \$Nil and \$117,703, respectively.

DOGNESS (INTERNATIONAL) CORPORATION
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(All amounts in USD)

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment stated at cost less accumulated depreciation consisted of the following:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|---|--------------------------------------|--------------------------------------|
| Buildings | \$ 25,192,351 | \$ 27,161,241 |
| Machinery and equipment | 6,847,546 | 5,848,505 |
| Office equipment and furniture | 928,429 | 1,042,408 |
| Automobiles | 779,065 | 837,276 |
| Leasehold improvements | 40,751,384 | 44,384,670 |
| Total | <u>74,498,775</u> | <u>79,274,100</u> |
| Less: Accumulated depreciation | (12,538,764) | (10,530,744) |
| Impairment of property, plant and equipment | (273,162) | (295,744) |
| Property, plant and equipment, net | <u>\$ 61,686,849</u> | <u>\$ 68,447,612</u> |

No impairment was recorded for the years ended June 30, 2023, 2022 and 2021, respectively.

Depreciation expense was \$3,251,711, \$3,375,875 and \$3,025,686 for the years ended June 30, 2023, 2022 and 2021, respectively. In connection with the approximately \$4.6 million long-term bank loans borrowed from Dongguan Rural Commercial Bank, the Company's subsidiary Meijia pledged its fixed assets of approximately \$4.8 million as collateral to secure the loans. In addition, in connection with the Company's approximately \$0.9 million loan from Cathay Bank, the Company's U.S. subsidiary Dogness Group pledged its fixed assets as collateral to secure the borrowing (see Note 8).

The Company's subsidiary Dongguan Jiasheng had a capital project to build new manufacturing and operating facilities, which include warehouse, workshops, office building, security gate, employee apartment building, electrical transformer station and exhibition hall, etc. The total budget is approximately RMB263.5 million (\$36.3 million). As of June 30, 2022, the Company had completed this project and transferred all of the related CIP to fixed assets. As of June 30, 2023, the Company has made total payments of approximately RMB261.7 million (\$36.1 million) in connection to this project, which resulted in future minimum capital expenditure payments of approximately RMB1.8 million (\$0.3 million), the Company plan to pay remaining payments in twelve months after June 30, 2023.

The Company's subsidiary Dogness Culture was also working on a project to decorate a pet themed retail store. Total decoration cost is approximately RMB2.2 million (\$0.3 million). This project was fully completed during year ended June 30, 2021. As of June 30, 2023, the Company has fully paid for the project.

NOTE 6 – INTANGIBLE ASSETS, NET

Net intangible assets consisted of the following:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|--------------------------------|--------------------------------------|--------------------------------------|
| Software | \$ 207,218 | \$ 224,349 |
| Land use right | 2,094,167 | 2,267,289 |
| Less: accumulated amortization | (456,379) | (428,221) |
| Intangible assets, net | <u>\$ 1,845,006</u> | <u>\$ 2,063,417</u> |

Amortization expense was \$63,460, \$82,472, and \$80,396, for the years ended June 30, 2023, 2022 and 2021, respectively. In connection with the \$4.6 million long-term loans borrowed from Dongguan Rural Commercial Bank, the Company's subsidiary Meijia pledged its land use right with net book value of \$1.8 million as the collateral to secure the loans (See Note 8)

DOGNESS (INTERNATIONAL) CORPORATION
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(All amounts in USD)

NOTE 6 – INTANGIBLE ASSETS, NET (continued)

Estimated future amortization expense is as follows:

| Twelve months ending June 30, | Amortization expense |
|-------------------------------|----------------------|
| 2024 | \$ 74,886 |
| 2025 | 57,277 |
| 2026 | 56,680 |
| 2027 | 56,680 |
| Thereafter | 1,599,483 |
| Total | <u>\$ 1,845,006</u> |

NOTE 7 – LEASES

The Company has several operating leases for manufacturing facilities and offices. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Operating lease expenses were \$1,615,537, \$477,268 and \$476,574 for the years ended June 30, 2023, 2022 and 2021, respectively. Short-term lease expenses were \$Nil, \$Nil and \$11,189 for the years ended June 30, 2023, 2022 and 2021, respectively.

Supplemental balance sheet information related to operating leases was as follows:

| | As of June 30, 2023 | As of June 30, 2022 |
|---|------------------------|------------------------|
| Operating lease right-of-use assets, net | \$ 17,537,096 | \$ 4,589,678 |
| Operating lease liabilities - current | \$ 2,326,162 | \$ 184,700 |
| Operating lease liabilities - non-current | 10,612,508 | 901,351 |
| Total operating lease liabilities | <u>\$ 12,938,670</u> | <u>\$ 1,086,051</u> |

The weighted average remaining lease terms and average discount rate was 14.23 years and 5.79% as of June 30, 2023.

The following is a schedule of maturities of lease liabilities are as follows:

| Twelve months ending June 30, | |
|-------------------------------------|----------------------|
| 2024 | \$ 2,913,507 |
| 2025 | 207,990 |
| 2026 | 729,046 |
| 2027 | 1,226,060 |
| 2028 | 1,037,346 |
| Thereafter | 12,940,536 |
| Total future minimum lease payments | 19,054,485 |
| Less: imputed interest | 6,115,815 |
| Total | <u>\$ 12,938,670</u> |

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 8 – BANK LOANS

Short-term loans consisted of the following:

| | As of June 30, 2023 | As of June 30, 2022 |
|----------------------------------|--------------------------------|--------------------------------|
| Cathay Bank | | |
| Effective interest rate at 4.25% | \$ 887,000 | \$ 564,000 |
| Total | \$ 887,000 | \$ 564,000 |

On February 6, 2020, one of the Company's U.S. subsidiaries, Dogness Group, obtained a line of credit from Cathay Bank, pursuant to which Dogness Group has the availability to borrow a maximum \$1.2 million out of this line of credit for two years at the U.S. prime rate. The loan is guaranteed by the fixed assets of Dogness Group. The purpose of this loan is to expand the business operation and increase the marketing and sales activities in the United States and other international markets.

As of June 30, 2023, the outstanding balance was \$887,000. The Company has extended the repayment date to February 2024 from the original due date of February 2022. As of the date of this report, the Company made total payments of \$828,416.

Long-term loan consisted of the following:

| | As of June 30, 2023 | As of June 30, 2022 |
|--|--------------------------------|--------------------------------|
| Dongguan Rural Commercial Bank | | |
| Effective interest rate at 6.15% and 6.55% | \$ 4,555,467 | \$ 6,320,534 |
| Less: current portion of long-term loans | (2,959,918) | (1,386,160) |
| Long-term loans | \$ 1,595,549 | \$ 4,934,374 |

On July 17, 2020, the Company entered into multiple loan agreements with Dongguan Rural Commercial Bank to borrow an aggregate of \$6.9 million (RMB50 million) of loans to support the working capital needs and the construction of the Company's current CIP projects. The loans have tenure varying between three and eight years. The loans bear a variable interest rate based on the prime interest rate set by the People's Bank of China at the time of borrowing, plus 1.405 basis points. The Company pledged the land use right of approximately \$1.8 million and buildings of approximately \$4.8 million from Meijia as collateral to secure total loans of \$4.1 million (RMB30 million). Mr. Silong Chen, the CEO of the Company, pledged personal property as collateral to secure the remaining loans of \$2.8 million (RMB20 million). Dongguan Dogness, Meijia and Mr. Silong Chen also provided guarantee for the loans. As of June 30, 2023, the outstanding balance was \$4,555,467. The Company further repaid \$2,702,960 (RMB19,600,873) and drew down \$2,620,100 (RMB19,000,000) subsequent to the period end.

Interest expenses for the above-mentioned loans amounted to \$396,517, \$471,443 and \$460,905 for the years ended June 30, 2023, 2022 and 2021, respectively.

The Company capitalized interest of \$Nil, \$90,775 and \$145,620 related to certain CIP projects expenditures for the years ended June 30, 2023, 2022 and 2021, respectively.

As of June 30, 2023, the Company's short-term and long-term loans totaled approximately \$5.4 million. The repayment schedule for the Company's bank loans are as follows:

| Twelve months ending June 30, | Repayment |
|--------------------------------------|---------------------|
| 2024 | \$ 3,846,918 |
| 2025 | 361,513 |
| 2026 | 384,284 |
| 2027 | 408,490 |
| 2028 | 434,197 |
| 2029 | 7,065 |
| Total | \$ 5,442,467 |

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 9 – TAXES

(a) Corporate Income Taxes (“CIT”)

Dogness is incorporated in the BVI as an offshore holding company and is not subject to tax on income or capital gain under the laws of BVI.

Under Hong Kong tax laws, subsidiaries in Hong Kong are subject to statutory income tax rate at 16.5% if revenue is generated in Hong Kong and there are no withholding taxes in Hong Kong on remittance of dividends.

Under the Enterprise Income Tax (“EIT”) Law of PRC, domestic enterprises and Foreign Investment Enterprises (“FIEs”) are usually subject to a unified 25% enterprise income tax rate while preferential tax rates, tax holidays and even tax exemption may be granted on case-by-case basis. EIT grants preferential tax treatment to High and New Technology Enterprises (“HNTEs”). Under this preferential tax treatment, HNTEs are entitled to an income tax rate of 15%, subject to a requirement that they re-apply for HNTE status every three years. In October 2015, Dongguan Jiasheng, the Company’s main operating subsidiary in PRC, was approved as HNTEs and is entitled to a reduced income tax rate of 15% from 2015 to 2023. The certificate is subject to further renewal.

EIT is typically governed by the local tax authority in China. Each local tax authority at times may grant tax holidays to local enterprises as a way to encourage entrepreneurship and stimulate the local economy. The corporate income taxes for the years ended June 30, 2023, 2022 and 2021 were reported at a reduced rate of 15% as a result of Dongguan Jiasheng being approved as HNTE. The impact of the tax holidays noted above decreased foreign taxes by \$316,913, \$100,210 and \$117,514 for the years ended June 30, 2023, 2022 and 2021, respectively. The benefit of the tax holidays on net income (loss) per share (basic and diluted) was \$0.01, \$0.00 and \$0.00 for the years ended June 30, 2023, 2022 and 2021, respectively. As of June 30, 2023 all of the Company’s tax returns of its PRC subsidiaries, Hong Kong subsidiaries and U.S subsidiary remain open for statutory examination by relevant tax authorities.

The following table reconciles the statutory rate to the Company’s effective tax:

| | For the Years Ended June 30, | | |
|--|-------------------------------------|-----------------------|-------------------|
| | 2023 | 2022 | 2021 |
| Income tax expense computed based on PRC statutory rate | \$ (2,171,731) | \$ 59,567 | \$ 485,121 |
| Effect of rate differential for Hong Kong and other outside PRC entities | 408,161 | (223,665) | (173,905) |
| Effect of PRC preferential tax rate | 316,913 | 100,210 | (117,514) |
| Change in valuation allowance | 872,870 | 444,323 | (223,729) |
| Surcharge on unpaid income tax | - | - | 669,650 |
| Income tax payable reserved | (567,342) | (3,163,806) | - |
| Permanent difference | (83,745) | 5,503 | 30,030 |
| Refund of prior years’ tax | (2,575) | - | (28,193) |
| Effective tax | \$ (1,227,449) | \$ (2,777,868) | \$ 641,460 |

The provision for income tax consists of the following:

| | For the Years Ended June 30, | | |
|---|-------------------------------------|-----------------------|-------------------|
| | 2023 | 2022 | 2021 |
| Current income tax (benefit) expense | \$ (568,854) | \$ (2,659,444) | \$ 1,119,776 |
| Deferred income tax benefit | (658,595) | (118,424) | (478,316) |
| Total income tax (benefit) expense | \$ (1,227,449) | \$ (2,777,868) | \$ 641,460 |

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 – TAXES (continued)

The Company's deferred tax assets consist of the following:

| | As of June 30, 2023 | As of June 30, 2022 |
|---------------------------|--------------------------------|--------------------------------|
| Deferred tax assets: | | |
| Net operating losses | \$ 3,086,012 | \$ 1,828,369 |
| Assets impairment reserve | 493,981 | 451,538 |
| Others | (38,558) | (45,537) |
| Valuation allowance | (2,259,801) | (1,535,331) |
| Deferred tax assets, net | <u>\$ 1,281,634</u> | <u>\$ 699,039</u> |

(b) Taxes Payable

The Company's taxes payable consists of the following:

| | As of June 30, 2023 | As of June 30, 2022 |
|------------------------------|--------------------------------|--------------------------------|
| Corporate income tax payable | \$ 875,973 | \$ 1,536,225 |
| Other tax payable | 139,471 | 21,436 |
| Total taxes payable | <u>\$ 1,015,444</u> | <u>\$ 1,557,661</u> |

The Company may be subject to challenges from various PRC taxing authorities regarding the amounts of taxes due, although the Company's management believes the Company has paid or accrued for all taxes owed by the Company. According to PRC taxation regulation and administrative practice and procedures, the statute of limitation on tax authority's audit or examination of previously filed tax returns expires three years from the date they were filed. The Company also obtained a written statement from the local tax authority that no additional taxes are due as of June 30, 2023. Based on these facts, the Company reversed the accrued tax liabilities in the total amount of approximately \$3.4 million (or RMB24,370,181) relating to the tax liabilities accrued for the period from fiscal 2016 to fiscal 2019, resulting in the decrease of accrued income tax liabilities from approximately \$4.2 million to approximately \$0.9 million as of June 30, 2023. The Company continues to discuss with the local tax authority to try to settle the remaining tax liabilities as soon as practicable, mostly related to its unpaid income tax and business tax.

Due to uncertainties associated with the status of examinations, including the protocols of finalizing audits by the relevant tax authorities, there is a high degree of uncertainty regarding the future cash outflows associated with the interest and penalties on these unpaid tax balances. The final outcome of this tax uncertainty is dependent upon various matters including tax examinations, interpretation of tax laws or expiration of status of limitation.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Contingencies

The Company may be involved in various legal proceedings, claims and other disputes arising from the commercial operations, projects, employees and other matters which, in general, are subject to uncertainties and in which the outcomes are not predictable. The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. Although the Company can give no assurances about the resolution of pending claims, litigation or other disputes and the effect such outcomes may have on the Company, the Company believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided or covered by insurance, will not have a material adverse effect on the Company's consolidated financial position or results of operations or liquidity.

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NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Capital Investment Obligation

Zhangzhou Meijia Metal Product Ltd.

Meijia was incorporated under the laws of the People’s Republic of China with a total registered capital of RMB 60.0 million (\$8.3 million). As of June 30, 2022, RMB42.7 million (\$5.9 million) capital contribution has been made. During the year ended June 30, 2023, the Company made additional capital contribution RMB1,930,000 (\$0.3 million) in Meijia.

As of the date of this report, pursuant to the articles of incorporation of Meijia, the Company is obligated to contribute the remaining RMB 15,370,000 (\$2.1 million) capital investment into Meijia before December 30, 2025 whenever the Company has available funds.

Capital Expenditure Commitment

In connection with the Company’s construction projects on Dogness Culture and Dongguan Jiasheng, the future minimum capital expenditure commitment on these projects was \$254,070 as of June 30, 2023. (see Note 5)

NOTE 11 – RELATED PARTY TRANSACTIONS

The relationship of related parties is summarized as follow:

| <u>Name of Related Party</u> | <u>Relationship to the Company</u> |
|---|--|
| Silong Chen | Chief Executive Officer; Chairman of the Board of Directors |
| Junqiang Chen | Relative of Mr. Silong Chen |
| Linsun Smart Technology Co., Ltd (“Linsun”) | Equity investee -10% of the ownership |
| Dogness Network Technology Co., Ltd (“Dogness Network”) | Equity investee - 13% of the ownership |
| Dogness Technology Co., Ltd (“Dogness Technology”) | The legal representative is Junqiang Chen, the relative of Mr. Silong Chen |

(1) Due from related parties

Due from related parties consist of mainly rent receivables from the following:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|--------------------|--------------------------------------|--------------------------------------|
| Linsun | \$ 87,430 | \$ 77,964 |
| Dogness Network | - | 7,340 |
| Dogness Technology | - | 20,099 |
| Total | <u>\$ 87,430</u> | <u>\$ 105,403</u> |

(2) Due to related parties

Due to related parties consist of the following:

| | <u>As of</u> <u>June 30, 2023</u> | <u>As of</u> <u>June 30, 2022</u> |
|--------------------|--------------------------------------|--------------------------------------|
| Mr. Silong Chen | \$ 80,327 | \$ 130,468 |
| Dogness Technology | 5,516 | - |
| Total | <u>\$ 85,843</u> | <u>\$ 130,468</u> |

Mr. Silong Chen periodically provides working capital loans to support the Company’s operations when needed. Such advances are non-interest bearing and due on demand.

DOGNESS (INTERNATIONAL) CORPORATION
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(All amounts in USD)

NOTE 11 – RELATED PARTY TRANSACTIONS (continued)

(3) Loan guarantee provided by related parties

In connection with the Company's bank borrowings, Mr. Silong Chen pledged his personal assets as collateral and signed guarantee agreements to provide guarantee to the Company's long-term bank loans. (See Note 8).

(4) Sales to related parties

Revenue from related parties consisted of the following:

| Name | For the Years Ended June 30, | | |
|--------------------|------------------------------|---------------------|---------------------|
| | 2023 | 2022 | 2021 |
| Dogness Network | \$ 1,543,979 | \$ 1,806,732 | \$ 1,207,686 |
| Dogness Technology | 156,194 | 405,847 | - |
| Total | \$ 1,700,173 | \$ 2,212,579 | \$ 1,207,686 |

Cost of revenue associated with the sales to these related parties amounted to \$1,162,314 \$1,301,180 and \$663,742 for the years ended June 30, 2023, 2022 and 2021, respectively.

(5) Accounts receivable from related parties

Accounts receivable from related parties consisted of the following:

| | As of | As of |
|--|---------------------|---------------------|
| | June 30, 2023 | June 30, 2022 |
| Accounts receivable - related parties: | | |
| Dogness Network | \$ 1,133,092 | \$ 1,036,476 |
| Dogness Technology | 139,292 | 58,379 |
| Total | \$ 1,272,384 | \$ 1,094,855 |

As of June 30, 2023, total accounts receivable from related parties amounted to \$1,272,384, of which \$164,807 has been collected as of August 2023.

(6) Advance to supplier- related party

Advance to supplier from related party consisted of the following:

| | As of | As of |
|--------------------------------------|-------------------|---------------|
| | June 30, 2023 | June 30, 2022 |
| Advance to supplier - related party: | | |
| Linsun | \$ 239,729 | \$ - |
| Total | \$ 239,729 | \$ - |

(7) Accounts payable to related party

Accounts payable to related party consisted of the following:

| | As of | As of |
|----------------------------------|---------------|-------------------|
| | June 30, 2023 | June 30, 2022 |
| Accounts payable - related party | | |
| Linsun | \$ - | \$ 393,625 |
| Total | \$ - | \$ 393,625 |

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 – RELATED PARTY TRANSACTIONS (continued)

(8) Purchase from related parties

During the years ended June 30, 2023, 2022 and 2021, the Company purchased certain pet product components and parts, such as smart pet water and food feeding devices, from Linsun. Total purchases from Linsun amounted to \$565,548, \$3,199,833 and \$3,015,442 for the years ended June 30, 2023, 2022 and 2021, respectively.

(9) Lease arrangement with related parties

On January 2, 2020, Dongguan Jiasheng signed a lease agreement with Linsun, which enabled Linsun to lease part of Dongguan Jiasheng's new production facilities of approximately 8,460 square meters for ten years. Annual lease payment from Linsun amounted to approximately \$230,000 and is subject to 15% increase every three years. For the year ended June 30, 2023, 2022 and 2021, the Company recorded rent income of \$434,625, \$462,210 and \$300,511 as other income through leasing the manufacturing facilities to Linsun, respectively.

On August 1, 2020, Dongguan Jiasheng signed a lease agreement with Dogness Network, which enabled Dogness Network to lease part of Dongguan Jiasheng's new production facilities of approximately 580 square meters for ten years. Annual lease payment from Dogness Network amounted to approximately \$35,000 and is subject to 15% increase every three years. This lease agreement was terminated in October, 2022. For the years ended June 30, 2023, 2022 and 2021, the Company recorded rent income of \$10,952, \$78,251 and \$52,796 as other income through leasing the manufacturing facilities to Dogness Network.

On August 1, 2020, Dongguan Jiasheng signed a lease agreement with Dogness Technology, which enabled Dogness Technology to lease part of Dongguan Jiasheng's new production facilities of approximately 50 square meters for ten years. Annual lease payment from Dogness Technology amounted to \$1,726. For the years ended June 30, 2023, 2022 and 2021, the Company recorded rent income of \$1,584, \$1,706 and \$1,661 as other income through leasing the manufacturing facilities to Dogness Technology.

NOTE 12 – EQUITY

Common Shares

Dogness was established under the laws of BVI on July 11, 2016. The original authorized number of common shares was 15,000,000 shares with par value of \$0.002 each. On April 26, 2017, Shareholders of the Company held a meeting (the "Meeting") and approved the following resolutions: (i) increase the authorized number of common shares to 100,000,000 shares with par value of \$0.002 each, of which 15,000,000 were issued and outstanding; and (ii) reclassify the currently issued and outstanding common shares into two classes, Class A common shares and Class B common shares, which have equal economic rights but unequal voting rights, pursuant to which Class A common shares receive one vote each and Class B common shares receive three votes each.

On October 22, 2022, Shareholders of the Company held a meeting and approved a change to the maximum number of shares that the Company is authorized to issue from 100,000,000 made up of two classes with a par value of \$0.002 each being 90,931,000 Class A Shares and 9,069,000 Class B Shares to 110,000,000 made up of two classes with a par value of \$0.002 each, being 90,931,000 Class A shares and 19,069,000 Class B shares

Initial Public Offering

On December 18, 2017, the Company completed its initial public offering ("IPO") of 10,913,631 Class A common shares at a public offering price of \$5.00 per share. The gross proceeds were approximately \$54.6 million before deducting placement agent's commission and other offering expenses, resulting in net proceeds of approximately \$50.2 million. In connection with the offering, the Company's Class A common shares began trading on the NASDAQ Global Market on December 20, 2017 under the symbol "DOGZ."

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 12 – EQUITY (continued)

Equity Financing

January 2021 equity financing

On January 20, 2021, the Company closed a securities purchase agreement with certain institutional investors for the sale of 3,455,130 Class A common shares in a registered offering at the price of \$2.15 per common share. After the payment of expenses, the Company received approximately \$6.6 million in net proceeds from the sale of the common shares.

July 2021 equity financing

On July 19, 2021, the Company closed a securities purchase agreement with certain institutional investors for the sale of 2,178,120 Class A common shares in a registered offering at the price of \$1.82 per common share. After payment of expenses, the Company received approximately \$3.5 million in net proceeds from the sale of the common shares.

February 2022 equity financing

On February 24, 2022, the Company closed a securities purchase agreement with certain institutional investors for the sale of 1,966,251 Class A common shares in a registered offering at the price of \$2.88 per common share. After payment of expenses, the Company received approximately \$4.7 million in net proceeds from the sale of the common shares.

June 2022 equity financing

On June 3, 2022, the Company closed a securities purchase agreement with certain institutional investors for the sale of 3,636,365 Class A common shares in a registered offering at the price of \$3.30 per common share. After payment of expenses, the Company received approximately \$10.9 million in net proceeds from the sale of the common shares.

Common Shares Issued for Service

On April 15, 2021, the Company signed a consulting agreement with Real Miracle Investments Limited (“Real Miracle”) to provide strategic business and marketing consulting services to the Company for nine months from April 15, 2021. As the consideration for the service, Real Miracle is entitled to receive 250,000 of the Company’s Class A common shares within ten days upon signing the agreement. On April 28, 2021, these shares were issued to Real Miracle. These shares were measured at \$387,500 which was based on the value of the Company’s Class A common shares at the agreement date and amortized over the service period.

On December 15, 2022, the Company signed a consulting agreement with Real Miracle Investments Limited (“Real Miracle”) to provide strategic business and marketing consulting services to the Company for nine months from December 15, 2022. As the consideration for the service, Real Miracle is entitled to receive 300,000 of the Company’s Class A common shares within ten days upon signing the agreement. On December 19, 2022, these shares were issued to Real Miracle. These shares were measured at \$334,500 which was based on the value of the Company’s Class A common shares at the agreement date and amortized over the service period.

On January 26, 2023, the Board adopted resolutions to grant total 1,500,000 Class A common shares to Mr. Silong Chen, the Chief Executive Officer of the Company as part of the annual salary. These shares shall be issued equally on January 26, 2023, 2024 and 2025. On January 26, 2023, the Company issued 500,000 Class A common shares to Mr. Silong Chen as the first tranche of the salary shares. These shares were measured at \$1,455,000 which was based on the value of the Company’s Class A common shares at the granted date and amortized over the service period.

On January 26, 2023, the Board adopted resolutions to grant 150,000 Class A common shares to Dr. Yunhao Chen, the Chief Financial Officer of the Company as part of the annual salary. These shares shall be issued equally on January 26, 2023, 2024 and 2025. On January 26, 2023, the Company issued 50,000 Class A common shares to Dr. Yunhao Chen as the first tranche of the salary shares. These shares were measured at \$145,500 which was based on the value of the Company’s Class A common shares at the granted date and amortized over the service period. The unissued shares were forfeited due to the resignation of Dr. Yunhao Chen as the Company’s Chief Financial Officer on August 1, 2023.

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 12 – EQUITY (continued)

As of June 30, 2023, the Company had an aggregate of 40,124,259 common shares outstanding, consisting of 31,055,259 Class A and 9,069,000 Class B common shares; respectively. As of June 30, 2022, the Company had an aggregate of 39,274,259 common shares outstanding, consisting of 30,205,259 Class A and 9,069,000 Class B common shares; respectively.

Warrants

In connection with and upon closing of the IPO on December 18, 2017, the Company agreed to issue 500,000 warrants to the underwriters and to register herein warrants to purchase up to a total of up to 500,000 Class A common shares (equal to 5% of the aggregate number of Class A common shares sold in the IPO).

These warrants carry a term of three years from the closing of the IPO, and are exercisable at any time, and from time to time, in whole or in part, commencing 180 days from the closing of the IPO and are exercisable at a price equal to \$6.25 per share. These underwriter warrants expired on December 18, 2020.

In connection of January 2021 equity financing, warrants carry a term of thirty (30) months after the issuance date to purchase an aggregate of 1,727,565 common shares for \$2.70 per share were issued to the investors and warrants carrying a term of thirty (30) months commencing six months after the issuance date to purchase an aggregate of 276,410 common shares for \$2.70 per share were issued as commission to the placement agent in the offering. If fully exercised, the Company would receive aggregate gross proceeds from the warrants of approximately \$5.4 million. These warrants were recorded at their fair value on the date of grant as a component of shareholders' equity. 1,727,565 warrants to the investors were exercised during year ended June 30, 2022. No warrants were exercised during year ended June 30, 2023.

In connection of July 2021 equity financing, the Company also issued warrants to purchase 174,249 common shares to the placement agent exercisable at \$1.82 per share with expiration date on July 15, 2024. No warrants were exercised during year ended June 30, 2023.

In connection of June 2022 equity financing, the Company also issued warrants to purchase 2,181,81 common shares to the investors at \$4.20 per share with expiration date on June 3, 2024. No warrants were exercised during year ended June 30, 2023.

Management determined that these warrants meet the requirements for equity classification under ASC 815-40 because they are indexed to its own shares. The warrants were recorded at their fair value on the date of grant as a component of shareholders' equity. As of June 30, 2023, 2,632,478 warrants in connection with three equity financings as mentioned above were outstanding, with weighted average exercise price of \$3.88 and weighted average remaining life of 1.72 years.

Statutory Reserve

The Company's subsidiaries located in mainland China are required to make appropriations to certain reserve funds, comprising the statutory surplus reserve and the discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the PRC ("PRC GAAP"). Appropriations to the statutory surplus reserve are required to be at least 10% of the after-tax net income determined in accordance with PRC regulations until the reserve is equal to 50% of the entity's registered capital. Appropriations to the discretionary surplus reserve are made at the discretion of the Board of Directors. The Company allocated \$Nil, \$Nil and \$99,727 to statutory reserves during the years ended June 30, 2023, 2022 and 2021 in accordance with PRC regulations, respectively. The restricted amounts as determined by the PRC statutory laws both totaled \$291,443 as of June 30, 2023 and 2022, respectively.

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 13 – (LOSS) EARNINGS PER SHARE

For the year ended June 30, 2023, potential shares of common stock from the unexercised options and unexercised options are excluded from diluted net loss per share as such amounts are anti-dilutive.

For the years ended June 30, 2022, the effect of potential shares of common stock from the unexercised options was dilutive since the exercise prices for the options were lower than the average market price. As a result, a total of 301,975 unexercised options were included in the computation of diluted earnings per share for the years ended June 30, 2022.

For the years ended June 30, 2021, the effect of potential shares of common stock from the unexercised options was dilutive since the exercise prices for the options were lower than the average market price. As a result, a total of 55,444 unexercised options were included in the computation of diluted earnings per share for the years ended June 30, 2021.

The following table presents a reconciliation of basic and diluted net (loss) income per share:

| | For the Years Ended June 30, | | |
|--|-------------------------------------|--------------|--------------|
| | 2023 | 2022 | 2021 |
| Net income (loss) attributable to the Company | \$ (7,200,263) | \$ 3,235,559 | \$ 1,512,364 |
| Weighted average number of common shares outstanding - Basic | 39,668,780 | 33,711,659 | 27,499,367 |
| Dilutive securities -unexercised warrants and options | - | 301,975 | 55,444 |
| Weighted average number of common shares outstanding – diluted | 39,668,780 | 34,013,634 | 27,554,811 |
| Earnings (loss) per share - Basic | \$ (0.18) | \$ 0.10 | \$ 0.05 |
| Earnings (loss) per share – Diluted | \$ (0.18) | \$ 0.10 | \$ 0.05 |

NOTE 14 – OPTIONS

On November 10, 2017, the Company signed a consulting agreement to engage TJ Capital Management, L.P. (“TJ Capital”) to provide strategic consulting services to the Company in matters relating to investor relations, capital markets and shareholder value creation strategy.

As the part of the agreement, TJ Capital was granted options to purchase 160,000 of the Company’s Class A common shares. The options are exercisable at a purchase price of \$1.50 per share with no restriction for sale, among which options 60,000 shares were to vest 7 months after the Company’s IPO date, 50,000 shares were to vest 10 months after the IPO date, and 50,000 shares were to vest 15 months after the IPO date.

On May 23, 2019, the Company signed a service termination agreement with TJ Capital to terminate the consulting agreement previously entered on November 10, 2017. As a result, the options granted under the original service agreement were also cancelled. No share-based compensation expenses were accrued up to the date of the termination of this agreement, because TJ Capital had not provided the services.

On July 30, 2019, the Company negotiated and signed a new Corporate and Executive Service Agreement with TJ Capital to provide strategic consulting services to the Company relating to services such as investor relations, capital markets and shareholder value creation strategy. The consulting service period is for two years, unless sooner terminated by either party or extended by the agreement of both parties. Pursuant to the agreement, as the compensation for the services, TJ Capital will be granted options to purchase 160,000 of the Company’s Class A common shares. The options are exercisable at a purchase price of \$1.50 per share, and the options shall be deemed to be fully paid at a rate of 6,667 options per month, commencing on August 1, 2019. The options may be exercised at any time following vesting for cash or on a cashless basis. The aggregated fair value of the options granted to TJ Capital was \$284,300. The fair value has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying Class A common shares of \$2.90; risk free rate of 1.85%; expected term of 2 years; exercise price of the options of \$1.50; volatility of 77.0%; and expected future dividends of \$Nil.

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 – OPTIONS (continued)

Pursuant to the consulting agreement signed between TJ Capital and the Company, TJ Capital opted to exercise 10,000 share options on a cashless basis. On February 18, 2021, the Company issued 6,053 common shares to TJ Capital. During the year ended June 30, 2022, TJ Capital further opted to exercise 60,000, 60,000 and 10,000 share options on a cashless basis, respectively. On November 4, 2021, December 1, 2021 and January 3, 2022, the Company issued 36,440, 41,928 and 24,382 common shares to TJ Capital, respectively.

On May 28, 2017, the Company signed an employment agreement with Dr. Yunhao Chen, the Chief Financial Officer of the Company. As part of the compensation, the Company agreed to grant Ms. Chen options to purchase up to 120,000 Class A common shares, at an exercise price of \$1.50 per share. The grant was effective at the IPO date and the options vest at a rate of 5,000 per month, beginning one month following completion of the IPO.

The aggregate fair value of the options granted to Dr. Yunhao Chen, the CFO, was \$440,840. The fair value has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying Class A common shares of \$5.00; risk free rate of 1.84%; expected term of 2 years; exercise price of the options of \$1.50; volatility of 69.5%; and expected future dividends of \$Nil. On January 18, Dr. Yunhao Chen opted to exercise 120,000 shares options at the exercise price of \$1.50 and the Company issued 120,000 common shares to Dr. Yunhao Chen.

On May 28, 2017, the Company signed an employment agreement with Mr. Silong Chen, the Chief Executive Officer of the Company. As the part of the compensation, the Company agrees to grant Mr. Chen options to purchase up to 360,000 Class A common shares, at an exercise price of \$1.50 per share. The grant was effective at the IPO date and the options vest at a rate of 10,000 per month, beginning one month following completion of the IPO. On October 31, 2019, Mr. Silong Chen voluntarily waived the remaining unvested 140,000 options.

The aggregate fair value of the options granted to Mr. Silong Chen was \$1,385,500. The fair value has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying Class A common shares of \$5.00; risk free rate of 1.94%; expected term of 3 years; exercise price of the options of \$1.50; volatility of 74.7%; and expected future dividends of \$Nil. These options were expired.

On January 26, 2023, the Board adopted resolutions to issue incentive stock options of total 1,500,000 to Mr. Silong Chen under the Company's 2018 Stock Incentive Plan as part of compensations. These options shall be vested equally on January 26, 2023, 2024 and 2025 with exercise price of \$1 per share.

The aggregate fair value of the options granted to Mr. Silong Chen was \$941,813. The fair value has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying Class A common shares of \$0.97; risk free rate of 4.17% based upon the PRC's Company's bank lending rate; expected term of 5 years; exercise price of the options of \$1.00; volatility of 128.8% based upon the Company's historical stock price; and expected future dividends of \$Nil. These options expire on January 26, 2028.

On January 26, 2023, the Board adopted resolutions to issue incentive stock options of total 150,000 to Dr. Yunhao Chen under the Company's 2018 Stock Incentive Plan as part of compensations. These options shall be vested equally on January 26, 2023, 2024 and 2025 with exercise price of \$1 per share.

The aggregate fair value of the options granted to Dr. Yunhao Chen was \$94,181. The fair value has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying Class A common shares of \$0.97; risk free rate of 4.17%; expected term of 10 years; exercise price of the options of \$1.00; volatility of 128.8%; and expected future dividends of \$Nil. 50,000 options vested on January 26, 2023, and the unvested options were forfeited due to the resignation of Dr. Yunhao Chen as the Company's Chief Financial Officer on August 1, 2023. There is no unrecognized compensation associated with these options.

The Company recorded \$1,243,385, \$11,831 and \$529,658 stock-based compensation expense for the years ended June 30, 2023, 2022 and 2021, respectively.

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 – OPTIONS (continued)

The following table summarized the Company’s share option activity:

| | <u>Number of Options</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Life in Years</u> |
|----------------------------|------------------------------|--|---|
| Outstanding June 30, 2020 | 500,000 | \$ 1.50 | 0.35 |
| Exercisable, June 30, 2020 | 413,337 | \$ 1.50 | 0.19 |
| Granted | - | - | - |
| Cancelled | - | - | - |
| Exercised | (10,000) | - | - |
| Outstanding June 30, 2021 | 490,000 | \$ 1.50 | 0.03 |
| Exercisable, June 30, 2021 | 483,341 | \$ 1.50 | 0.03 |
| Granted | - | - | - |
| Cancelled | - | - | - |
| Exercised | (270,000) | - | - |
| Outstanding June 30, 2022 | 220,000 | \$ 1.50 | - |
| Exercisable, June 30, 2022 | 220,000 | \$ 1.50 | - |
| Granted | 1,650,000 | 1.00 | - |
| Cancelled | - | - | - |
| Exercised | - | - | - |
| Outstanding June 30, 2023 | 1,870,000 | 1.00 | 5.03 |
| Exercisable, June 30, 2023 | 550,000 | 1.00 | 5.03 |

NOTE 15 – SEGMENT

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, and is identified on the basis of the internal financial reports that are provided to and regularly reviewed by the Company’s chief operating decision maker in order to allocate resources and assess performance of the segment.

The management of the Company concludes that it has only one reporting segment. The Company designs, process and manufactures fashionable and high-quality leashes, collars and harnesses to complement cats’ and dogs’ appearances, as well as intelligent pet products. The Company also provides dyeing services to external customers, as well as pet grooming service. The dyeing service is to utilize the existing production capacity and the pet grooming service is immaterial. Therefore, the Company concludes that essentially the Company’s products and services have similar economic characteristics with respect to raw materials, vendors, marketing and promotions, customers and methods of distribution, hence the Company has only one reporting segment.

Revenue by products and services

The summary of total revenues by product and service categories consisted of the following

| | <u>For the Years Ended June 30,</u> | | |
|----------------------------------|-------------------------------------|---------------|---------------|
| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
| Product sales | | | |
| Traditional pet products | \$ 8,302,299 | \$ 11,433,159 | \$ 14,331,492 |
| Intelligent pet products | 7,404,407 | 13,492,076 | 7,801,070 |
| Climbing hooks and others | 1,806,369 | 1,761,341 | 1,340,686 |
| Total revenue from product sales | 17,513,075 | 26,686,576 | 23,473,248 |
| Services: | | | |
| Dyeing services | - | 342,561 | 817,145 |
| Other services | 71,379 | 66,060 | 29,728 |
| Total revenue from services | 71,379 | 408,621 | 846,873 |
| Total revenue | \$ 17,584,454 | \$ 27,095,197 | \$ 24,320,121 |

DOGNESS (INTERNATIONAL) CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in USD)

NOTE 15 – SEGMENT (continued)

Revenue by geographic area

Geographic information about the revenues, which are classified based on customers, is set out as follows:

| Geographic location | For the Years Ended June 30, | | |
|---------------------------------|-------------------------------------|----------------------|----------------------|
| | 2023 | 2022 | 2021 |
| Sales to international markets | \$ 11,253,079 | \$ 14,542,323 | \$ 10,627,253 |
| Sales to China domestic markets | 6,331,375 | 12,552,874 | 13,692,868 |
| Total revenue | \$ 17,584,454 | \$ 27,095,197 | \$ 24,320,121 |

NOTE 16 – CONCENTRATIONS AND CREDIT RISK

A majority of the Company's expense transactions are denominated in RMB and a significant portion of the Company and its subsidiaries' assets and liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China ("PBOC"). Remittances in currencies other than RMB by the Company in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to effect the remittance.

As of June 30, 2023 and 2022, \$271,636 and \$423,172 of the Company's cash and cash equivalents was on deposit at financial institutions in mainland China where there currently is no rule or regulation requiring such financial institutions to maintain insurance to cover bank deposits in the event of bank failure. In addition, the Company's short-term investments deposited with PRC banks are also not insured.

As of June 30, 2023, two customers aggregately accounted for 54.6% of the Company's total accounts receivable, with related party customer, Dogness Network accounted for 38.7%, and one third party customer accounted for 15.9% of the Company's total accounts receivable, respectively. As of June 30, 2022, two customers aggregately accounted for 57.4% of the Company's total accounts receivable, with related party customer, Dogness Network accounted for 37.7%, and one third party customer accounted for 19.7% of the Company's total accounts receivable, respectively.

As of June 30, 2023, two third party suppliers accounted for 13.7 and 11.2% of the Company's total account payable. As of June 30, 2022, one related party supplier, Linsun, accounted for 27.6% of the Company's total account payable, respectively.

For the years ended June 30, 2023, 2022 and 2021, sales to the customers outside of China accounted for 64.0%, 53.7% and 43.7% of the Company's total revenue, respectively. For the year ended June 30, 2023, four customers accounted for 15.4%, 11.6%, 8.8% and 5.3% of the Company's total revenue, respectively. For the year ended June 30, 2022, four customers accounted for 23.4%, 6.7%, 6.7% and 5.7% of the Company's total revenue, respectively. For the year ended June 30, 2021, three customers accounted for 32.0%, 9.1% and 6.9% of the Company's total revenue, respectively.

For the year ended June 30, 2023, one third party accounted for 34.1% of the Company's total raw materials purchases. For the year ended June 30, 2022, one related party Linsun accounted for 30.9% of the Company's total raw materials purchases. For the year ended June 30, 2021, one related party Linsun accounted for 26.9% of the Company's total raw materials purchases.

NOTE 17 – SUBSEQUENT EVENTS

The Company has evaluated the impact of events that have occurred subsequent to June 30, 2023, through the issuance date of the consolidated financial statements, and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (“Agreement”) is entered into this 16th day of August, 2023 but with effect from August 1, 2023 (the “Effective Date”) by and between AIHUA CAO (“Employee”) and DOGNESS (INTERNATIONAL) CORPORATION (“Dogness”).

WHEREAS, Dogness desires to employ Employee as the Chief Financial Officer of Dogness, the parent company of its direct or indirect subsidiaries, Jiasheng Enterprise (Hongkong) Co., Limited, Dogness (Hongkong) Pet’s Products Co., Limited, Dogness Overseas Ltd, Dogness Group LLC, Zhangzhou Meijia Metal Product Co., Ltd, Dogness Intelligent Technology (Dongguan) Co., Ltd., and Dongguan Jiasheng Enterprise Co., Ltd; and

WHEREAS, Employee and Dogness desire to establish and govern the employment relationship under the terms and conditions set forth in this Agreement; and

NOW, THEREFORE, in consideration of the mutual covenants and promises set forth herein, the adequacy of which is acknowledged, Employee and Dogness hereby agree as follows:

1. Employment. Employee is being employed by Dogness as the Chief Financial Officer upon and subject to the terms and conditions of this Agreement. During the term of her employment under this Agreement, Employee shall report to Dogness’ Chief Executive Officer and Board of Directors, or to such other persons as Dogness may designate from time to time. Dogness reserves the right to change Employee’s title, duties, and reporting relationships as may be determined by it to be in the best interests of Dogness.

2. Duties.

(a) During the term of her employment under this Agreement, Employee will perform her duties hereunder at such time or times as Dogness may reasonably request. Employee’s duties may be varied by Dogness from time to time without violating the terms of this Agreement and shall include: (i) devoting her best efforts and her entire business time to further properly the interests and revenues of Dogness to the satisfaction of Dogness, (ii) being subject to Dogness’ direction and control at all times with respect to her activities on behalf of Dogness, (iii) complying with all rules, orders, regulations, policies, practices and decisions of Dogness, (iv) truthfully and accurately maintaining and preserving all records and making all reports as Dogness may require, and (v) fully accounting for all monies and other property of Dogness of which she may from time to time have custody and delivering the same to Dogness whenever and however directed to do so.

(b) In performing her duties, Employee shall not undertake any action inconsistent with or harmful to the best interests of Dogness. Employee shall perform her duties and responsibilities in a professional manner and consistent with the overall goals and objectives of Dogness and applicable federal, state, and local law.

(c) In performing her duties, Employee shall be familiar with and shall comply with: (i) all applicable federal, state, and local laws and regulations; (ii) the policies and decisions of Dogness' Board of Directors; and (iii) all policies, procedures, and requirements enacted by Dogness' Board of Directors, as they may be amended from time to time. Employee agrees to adhere to and support Dogness' policies and practices as set forth in any employee handbook or policy manual. Employee acknowledges and agrees that Dogness may amend or update its employee handbooks or policy manuals from time to time by written notice to Employee.

(d) During her employment with Dogness, Employee shall devote her full time, attention, and best efforts to the operations of Dogness and the fulfillment of her duties. Employee agrees that, during her employment with Dogness, she will exercise the highest degree of loyalty and will conduct her duties with the highest degree of care. During her employment with Dogness, Employee shall not directly or indirectly engage in any other business activity, whether as an employee, employer, consultant, principal, officer, or otherwise and whether or not done for compensation, gain, or other financial or economic advantage.

3. Compensation

(a) For all services rendered by Employee to Dogness, Dogness shall pay Employee a base gross annual salary of \$3500 per month. Employee's annual gross salary will be paid to Employee in accordance with Dogness' standard payroll policies and practices, beginning with the first regularly scheduled pay date following the Effective Date of this Agreement. Employee understands and acknowledges that the base gross annual salary to be paid to her under this Agreement will be reduced by all applicable federal and state payroll and withholding taxes and any other deductions authorized by Employee for the provision of employee benefits or otherwise. Dogness will conduct an annual performance review of Employee, and any changes in Employee's salary shall be determined in the sole discretion of Dogness.

4. Expenses. Dogness shall reimburse Employee for all ordinary and necessary out-of-pocket expenses incurred and paid by Employee in the course of the performance of Employee's duties pursuant to this Agreement, provided that Employee incurred such expenses consistent with Dogness' policies in effect from time to time with respect to travel, entertainment and other business expenses. To receive such expenses reimbursement, Employee shall submit written requests, along with supporting documentation and/or receipts, in compliance with Dogness' requirements with respect to the manner of approval and reporting of such expenses.

5. Additional Benefits.

(a) Subject to meeting the eligibility requirements to participate in such plans under the terms and conditions established by the plans, Employee shall be eligible to participate in all employee benefits programs provided by Dogness to its employees, as such may be established and modified from time to time in the discretion of Dogness. However, nothing contained in this Agreement shall be construed to obligate Dogness in any manner to maintain any existing plans, put into effect any plans not presently in existence, or provide special benefits to Employee.

(b) During the term of this Agreement, Employee shall be entitled to all national statutory annual paid vacation leave per year. Employee understands and agrees that all vacation time shall be approved by the Chief Executive Officer before Employee takes such leave. Employee's ability to carry over unused vacation leave from year to year and to receive payment for unused vacation leave upon termination of employment shall be governed by Dogness' policies in existence at the time of such occurrence.

6. Indemnity. Dogness will indemnify Employee against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with civil, criminal, administrative or investigative proceedings to which Employee is party or are threatened to be made a party by reason of Employee acting as the Chief Financial Officer. To be entitled to indemnification, Employee must have acted honestly and in good faith with a view to the best interest of Dogness and, in the case of criminal proceedings, Employee must have had no reasonable cause to believe Employee's conduct was unlawful. Such limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission. These provisions will not limit Employee's liability under United States federal securities laws.

7. Termination.

(a) Either party may terminate this Agreement at any time, for any reason or for no reason, with or without cause, upon thirty (30) days' written notice to the other party.

(b) Notwithstanding Paragraph 7(a) above, Employee's employment with Dogness shall terminate immediately upon: (i) the death, disability, or adjudication of legal incompetence of Employee; (ii) Dogness' ceasing to carry on its business without assigning this Agreement; or (iii) Dogness becoming bankrupt. For purposes of this Agreement, Employee shall be deemed to be disabled when Employee has become unable, by reason of physical or mental disability, to satisfactorily perform the essential functions of her job and there is no reasonable accommodation that can be provided to enable her to perform satisfactorily those essential functions. Such matters shall be determined by, or to the reasonable satisfaction of, Dogness.

(c) Notwithstanding Paragraph 7(a) above, Dogness may immediately terminate this Agreement for cause, effective upon the provision of notice to Employee, for the following reasons: (i) Employee's repeated failure to satisfactorily and substantially perform her duties as an employee of Dogness (other than any such failure resulting from a disability), which failure has continued without remedy for more than thirty (30) days after Dogness has provided written notice thereof; (ii) Employee's dishonesty, incompetence, willful misconduct, gross negligence, or breach of fiduciary duty; (iii) failure to comply with the lawful directives of Dogness' Board of Directors; (iv) failure to abide by and/or comply with any laws or regulations governing or relating to the operations of Dogness; (v) failure to abide by and/or comply with any other applicable laws, including, but not limited to, laws prohibiting discrimination and harassment in the workplace; (vi) theft, misappropriation, or misuse of Dogness' property or assets; (vii) Employee's conviction of or plea of guilty or nolo contendere to any felony or any other crime involving theft, dishonesty, or fraudulent conduct; or (viii) breach of Employee's obligations under this Agreement.

(d) In the event Employee's employment with Dogness is terminated by Employee or Employer for any or no reason, Dogness shall pay or provide to Employee any salary that Employee shall have earned and not yet received through the date of such employment termination, determined on a pro rata basis based on the number of work days in the month of termination.

8. Employee Covenants.

(a) Non-Disclosure and Return of Confidential Information.

(i) Employee acknowledges that, as an employee of Dogness, Employee will be provided access to, and may develop or assist in developing on Dogness' behalf, confidential and proprietary information and trade secrets. As used in this Agreement, "Confidential Information" shall be deemed to include, but shall not be limited to, information and materials related to Dogness' business procedures, methods, and manufacturing processes for producing its products; marketing plans and strategies; customer lists, business heritories, customer presentations, strategic business opportunities and plans; market research, analyses of customer information, and prospective customer lists; pricing of goods sold, margins, and sales strategies; accounting, operational, organizational, and financial data, processes, and services; technical know-how; research and development; proprietary computer software and hardware; and any other information that is not generally known to the public or within the industry in which Dogness competes. "Confidential Information" shall also be deemed to include information or material received by Dogness from others and intended by them to be kept in confidence by its recipients. "Confidential Information" shall not include Employee's general skills and knowledge concerning general business practices not specific to Dogness' business, nor shall it include information that has become widely disseminated and generally available to the public through no wrongful act or omission on the part of Employee.

(ii) At all times during and after employment with Dogness, Employee shall take all reasonable steps necessary to preserve the confidential and proprietary nature of Confidential Information and to prevent the inadvertent or accidental disclosure of Confidential Information. Employee will not use, disclose, transfer, or make available any Confidential Information other than: (i) as required by the proper performance of Employee's duties for Dogness; (ii) as authorized by Dogness; and (iii) as required by an order or subpoena from a court of competent jurisdiction and/or administrative agency, provided that, prior to such disclosure, Employee promptly notifies Dogness so that Dogness may take appropriate action with such court or agency to protect its Confidential Information. Employee will not remove any Confidential Information from Dogness' premises or make copies of such materials except for use in Dogness' business. Employee shall not retain any tangible, intangible, or electronic copies of any Confidential Information after the termination of her employment with Dogness for any reason.

(iii) If part of the Confidential Information is known by public, but other parts or the whole is not public knowledge yet, the whole Confidential Information still has confidential value. Employee agrees to have non-disclosure covenant for such Confidential Information. Employee shall not disclose such information directly or indirectly, or solicit any third party to put together Confidential Information by collecting the public part(s).

(iv) During her employment with Dogness, for the interest of Dogness, Employee shall promptly report to Dogness the Confidential Information arising out of work, submit a written report, and assist Dogness to obtain the right of such information. Such Confidential Information shall be owned Dogness exclusively. During employment with Dogness, employee shall fully disclose all of her conceptions about Dogness' business to Dogness.

(v) The compensation paid to Employee by Dogness has included all the consideration for Employee to perform the covenants in Paragraph 8(a).

(vi) Employee warrants that, unless Employee has stated to Dogness in writing, Employee's usage or disclosure of any confidential information during employment with Dogness does not violate any confidentiality agreement between Employee and any previous employer or other party. No matter if Employee is bound by such confidentiality agreement, Employee shall not disclose it to Dogness, or solicit Dogness to use any confidential information of any of Employee's previous employers or other party.

(b) Non-Compete.

(i) Employee acknowledges that, during the course of her employment, Employee will be granted access to and may develop or assist in developing Dogness' Confidential Information and goodwill. Employee recognizes and agrees that in light of her extensive access to and knowledge of such Confidential Information and in order to protect Dogness' goodwill with its customers, Dogness has a reasonable and legitimate interest in protecting itself from unfair competition as set forth in subsection (ii).

(ii) Non-Compete Period is the course of employment with Dogness and a period of two (2) years after Employee's employment with Dogness ceases (whether voluntarily or involuntarily and for whatever reason) . During the Non-Compete Period, Employee shall not, on her own behalf or on behalf of any other person or entity, compete with Dogness by engaging in a position where Employee holds any registered or beneficial ownership/stock interest, or as its employee, consultant, management, director or other capacity, holds any interest of any company or entity that competes with the goods and services provided by Dogness, or helps or assists such company by any way; (ii) usurp business opportunities provided by other parties to Dogness, use Dogness' resources to create any business opportunity for herself; take commission fee related to Dogness' transactions, sign contracts or conduct transactions with Dogness without proper approval under internal rules of Dogness; or conduct other actions detrimental to Dogness' interests and/or competitive position, (iii) use any of Dogness' names, any other name that Dogness uses to operate business, or any similar name, or use such name to build or create any entrepreneur entity, organization or domain name, or use it in any other way without written consent of Dogness, or (iv) call herself employee of Dogness or related with Dogness in any way, after termination of her employment with Dogness. This restriction shall only apply within any geographic area serviced by Employee for Dogness at any time during the one (1) year period preceding Employee's termination of employment.

(iii) [Reserved].

(iv) The benefits obtained (including already obtained or agreed to obtain) by Employee through conducting restricted actions in the Non-Compete Period shall belong to Dogness.

(c) Non-Solicitation of Customers. Employee specifically agrees that, at all times during her employment with Dogness and for a period of two (2) years Employee will not solicit or offer to any Customer of Dogness any goods or services that compete with the goods or services provided by Dogness. For purposes of this Agreement, the term "Customer" means: (i) any person or entity that contracted with Dogness for goods or services at any time during the twelve (12) month period preceding the Employee's termination of employment; and (ii) any person or entity to whom Dogness made a proposal or presentation for the provision of goods or services at any time during the six (6) month period preceding Employee's termination of employment. Except as set forth in Paragraph 8(b), this restriction is not intended to prohibit Employee from providing goods or services to persons or entities who are not Customers of Company.

(d) Non-Solicitation of Employees. Employee specifically agrees that, at all times during her employment with Dogness and for a period of two (2) years after Employee's employment with Dogness ceases (whether voluntarily or involuntarily and for whatever reason), Employee shall not, on Employee's own behalf or on behalf of any other person or entity, hire, recruit, solicit for employment, or assist in solicitation or hiring any other employee who works for Dogness. This includes, but is not limited to: (i) providing to any such prospective employer the identities of any of Dogness' employees; (ii) providing to any such prospective employer information about the quantity of work, quality of work, special knowledge, or personal characteristics of any person who is still employed at the Dogness at the time such information is provided; and/or (iii) assisting any of Dogness' employees in obtaining employment with any such prospective employer through the dissemination of resumes and applications, or otherwise. Employee also specifically agrees that he will not provide the information set forth in subparts (i), (ii), or (iii) above to any prospective employer during interviews preceding possible employment.

(e) Intellectual Property.

(i) Employee agrees to disclose to Dogness all inventions, ideas, works of authorship and other trade secrets made, developed and/or conceived by her and arising out of Employee's employment at all times during her employment with Dogness and for a period of one (1) year.

(ii) Employee further agrees that all such inventions, ideas, works of authorship and other trade secrets made shall be “works made for hire” and that Dogness shall be deemed the author thereof under the U.S. Copyright Act or other applicable law, and all work product is and shall be free from any claim or retention of rights thereto on the part of Employee.

(iii) In any event and at any time, Employee hereby irrevocably assigns to Dogness any and all right, title interest in such inventions, ideas, works of authorship and other trade secrets made, including any and all patents and/or copyrights in connection with any of the foregoing, and agrees to do any and all acts necessary, and sign any and all instruments, which Dogness may request to secure all rights related to the foregoing in the United States or in any foreign country.

(iv) By exhibit to this Agreement, Employee lists all inventions he owns, including the ones he invents by herself and the ones he invents with others. All the inventions, completed prior to the employment with Dogness, and owned by Employee, or although owned by third party but Employee can use within the scope of agreement, are called Prior Inventions. If no exhibit discloses such inventions, it deems that Employee states such Prior Invention does not exist. If, during her employment with Dogness, Employee uses any Prior Invention on products, service, procedure, or machine equipment of Dogness, Dogness automatically gets non-exclusive, free, irrevocable, permanent and global license (including sublicensing to others through different levels of sublicense) to produce, modify, use and sell such Prior Invention. In light of the foregoing, Employee agrees that, without prior written consent of Dogness, Employee shall not use any Prior Invention which has been used on Dogness’ products or service, or authorize others to use.

(v) During her employment with Dogness, Employee confirms the compensation paid from Dogness to Employee fully covers the work for enforcing the invention, such as proposal of concept, creation, development, improvement or simplification. Employee represents to give up all legal priority rights to apply patent or trademark, rights to transfer any invention or technology products, and rights to claim or challenge the ownership of “works made for hire.”

(vi) Employee acknowledges and agrees that the covenants and rights in Paragraph 8(e) will be effective for an indefinite period, and will not be restricted by the termination of employment with Dogness.

(f) Return of Company Property.

Upon the request of Dogness or upon the termination of Employee’s employment with Dogness for any reason, Employee shall return to Dogness: (a) all Confidential Information; (b) all other records, designs, patents, business plans, financial statements, manuals, memoranda, lists, correspondence, reports, records, charts, advertising materials, and other data or property delivered to or compiled by Employee by or on behalf of Dogness or its operating subsidiaries, or their representatives, vendors, or customers that pertain to Dogness’ business, whether in paper, electronic, or other form; and (c) all keys, credit cards, computers, telephones, PDAs, equipment, and other property of Dogness. Employee shall not retain or cause to be retained any copies of the foregoing. Employee hereby agrees that all of the foregoing shall be and remain the property of Dogness, and be subject, at all times to its discretion and control.

(g) Enforcement.

(i) Employee and Dogness have examined in detail the covenants and restrictions set forth in Paragraph 8 (including all subsections) of this Agreement and agree that the restraints imposed upon Employee are reasonable in light of the legitimate interests of Dogness and are not unduly restrictive of Employee's ability to earn a living following the termination of her employment.

(ii) Employee understands and agrees that the covenants and restrictions set forth in Paragraph 8 (including all subsections) of this Agreement survive the termination of her employment (regardless of the reason) and remain binding and enforceable against her according to the restrictions' respective terms.

(iii) If any of the covenants contained in Paragraph 8 (including all subsections) of this Agreement are held by a court or other enforcement authority to be overly broad by reason of time period, geography or scope, the court shall modify any time period, geography or scope deemed overly broad to the maximum time period, geography or scope that such court or other enforcement authority finds reasonable and enforceable in light of all the circumstances present at the time such determination is made and this Agreement shall be deemed to be amended at such time to reflect such determination.

(iv) Employee agrees that a breach by her of any of the covenants and restrictions set forth in Paragraph 8 (including all subsections) of this Agreement will result in irreparable injury to Dogness for which a remedy at law shall be insufficient. Employee agrees that in the event of a breach or threatened breach of such covenants, Dogness shall be entitled to temporary, preliminary, and permanent injunctive relief without the need to prove irreparable harm and without the necessity of placing a bond for such injunction. The application of any form of injunctive relief shall not make any other legal or equitable remedy unavailable.

(v) In the event that the Employee is found by a court or other enforcement authority to have breached any of the covenants and restrictions set forth in Paragraph 8 (including all subsections) of this Agreement, then the time periods set forth in such restrictions, if any, shall automatically be extended by the length of time which Employee shall have been in breach of any of said provisions.

9. Survival of Obligations. All obligations of Employee that by their nature involve performance after the expiration or termination of Employee's employment with Dogness, or that cannot be ascertained to have been fully performed until after the expiration or termination of Employee's employment with Dogness, shall survive the expiration or termination of this Agreement. Except as otherwise specifically provided in this Agreement, all of Dogness' obligations under this Agreement will terminate at the time this Agreement or Employee's employment with Dogness is terminated for any reason.

10. Notice. Any notice, request, consent or communication under this Agreement shall be effective only if it is in writing and personally delivered or sent by certified mail, return receipt requested, postage prepaid, or by a nationally recognized overnight delivery service, with delivery confirmed, addressed as follows:

If to Dogness: Dogness (International) Corporation

No. 16 N. Dongke Road
Tongsha Industrial Zone
Dongguan, Guangdong
People's Republic of China 523217

With a Copy to: Anthony W. Basch

Kaufman & Canoles, P.C.
Two James Center, 14th Floor
1021 E. Cary St.
Richmond, VA 23219

If to Employee: Ms. AIHUA CAO
No. 16 N. Dongke Road
Tongsha Industrial Zone
Dongguan, Guangdong
People's Republic of China 523217

or such other persons and/or addresses as shall be furnished in writing by any party to the other party, and shall be deemed to have been given only upon its delivery in accordance with this Paragraph 10.

11. No Conflicts. Employee represents and warrants to Dogness that neither the execution nor delivery of this Agreement, nor the performance of Employee's obligations hereunder will conflict with, or result in a breach of, any term, condition, or provision of, or constitute a default under, any obligation, contract, agreement, covenant or instrument to which Employee is a party or under which Employee is bound, including, but not limited to, the breach by Employee of a fiduciary duty to any former employers.

12. Defined Terms. A term defined in any part of this Agreement shall have the defined meaning wherever the term is used in this Agreement.

13. Assignment.

(a) This Agreement may be assigned by Dogness to any successor, subsidiary or affiliated entity or in connection with sale, merger, or consolidation of Dogness with another entity. Additionally, this Agreement shall be deemed to have been assigned without any further action on the part of Dogness to a successor entity in the event of a sale, merger, or consolidation of Dogness. Such assignment may occur without prior notice to Employee and without the provision of any additional consideration to Employee.

(b) Employee understands and agrees that the duties and obligations of Employee under this Agreement are personal in nature and cannot be assigned, in whole or in part, by Employee.

14. Waiver.

(a) Any failure of any party on one or more occasions to enforce or require the strict keeping and performance of any of the terms and conditions of this Agreement shall not constitute a waiver of such terms and conditions of this Agreement, shall not constitute a waiver of such term or condition at any future time, and shall not prevent any party from insisting on the strict keeping and performance of such terms and conditions at a later time.

(b) The existence of any claim or cause of action of the Employee against Dogness, whether predicated upon an alleged breach of this Agreement or otherwise, shall not relieve Employee of her obligations under this Agreement and shall not constitute a defense to the enforcement by Dogness of any provision of this Agreement, including but not limited to the covenants contained in Paragraph 8 of this Agreement.

15. Governing Law. This Agreement is deemed to have been entered into in China and shall be construed and interpreted at all times and in all respects in accordance with the laws of China without regard to the principles of conflicts of laws, and jurisdiction and venue for any action relating in any manner to this Agreement shall be in a court of competent jurisdiction located in or having jurisdiction over China.

16. Attorneys' Fees. In the event there is any litigation to enforce this Agreement, the prevailing party will be awarded its/his costs, expenses, and reasonable attorneys' fees.

17. Severability. In the event that any provision of this Agreement shall be determined by a court or tribunal having proper jurisdiction to be invalid, or illegal, or unenforceable, the remainder of this Agreement shall not be affected but shall continue in full force and effect as though such invalid, illegal or unenforceable provision were not originally part of this Agreement.

18. Amendment. This Agreement may not be amended or modified except by an agreement in writing signed by all the parties hereto.

19. Construction of Agreement. Each party to this Agreement agrees and acknowledges that no presumption, inference, or conclusion of any kind shall be made or drawn against the drafter or drafter(s) of this Agreement. Each party to this Agreement also agrees and acknowledges that he/it has contributed to the final version of this Agreement through comments and negotiations.

20. Headings. The headings used in this Agreement are for convenience only and shall not be used to construe or interpret the meaning or intent of any provision.

21. Entire Agreement. This Agreement represents and contains the entire agreement and understanding between the parties with respect to the terms and conditions of this Agreement and supersedes any and all prior and contemporaneous written and oral agreements, understandings, representations, inducements, promises, warranties, and conditions between the parties with respect to the terms and conditions of this Agreement. No agreement, understanding, representation, inducement, promise, warranty or condition of any kind with respect to the terms and conditions of this Agreement shall be relied upon by either party unless expressly incorporated herein.

22. Counterparts. This Agreement may be executed in any number of counterparts,

each of which shall be deemed to be an original and all of which shall constitute one agreement that is binding upon both of the parties hereto, notwithstanding that both parties are not signatories to the same counterpart.

[Signature page follows]

IN WITNESS WHEREOF, the parties have executed this Employment Agreement to be effective as of the date indicated above:

DOGNESS (International) Corporation

/s/ Corporate Chop

/s/ AIHUA CAO

AIHUA CAO

/s/ Silong Chen

SILONG CHEN

Date: August 16, 2023

Date: August 16, 2023

**Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
and Securities and Exchange Commission Release 34-46427**

I, Silong Chen, certify that:

(1) I have reviewed this Form 20-F of Dogness (International) Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 11, 2023

/s/ Silong Chen

Silong Chen

Chief Executive Officer (Principal Executive Officer)

**Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
and Securities and Exchange Commission Release 34-46427**

I, Aihua Cao, certify that:

(1) I have reviewed this Form 20-F of Dogness (International) Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 11, 2023

/s/ Aihua Cao

Aihua Cao

Chief Financial Officer (Principal Financial Officer)

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

In connection with the Annual Report of Dogness (International) Corporation (the "Registrant") on Form 20-F for the year ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: October 11, 2023

/s/ Silong Chen

Silong Chen
Chief Executive Officer
(Principal Executive Officer)

**AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with Annual Report of Dogness (International) Corporation (the "Registrant") on Form 20-F for the year ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: October 11, 2023

/s/ Aihua Cao

Aihua Cao

Chief Financial Officer (Principal Financial Officer)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form F-3 (File No. 333-262504) and Form S-8 (File No. 333-226985) of our report dated October 11, 2023 relating to the consolidated balance sheets of Dogness (International) Corporation as of June 30, 2022 and June 30, 2023, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity, and cash flows for the years ended June 30, 2022 and June 30, 2023, which appears in such Registration Statements. We also consent to the reference to us under the heading "Experts" in such Registration Statements.

/s/ Audit Alliance LLP

Singapore
October 11, 2023



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Prager Metis CPAs, LLC

401 HACKENSACK AVENUE
4TH FLOOR
HACKENSACK, NJ 07601

T 201.342.7753
F 201.820.2691

www.pragermetis.com

We hereby consent to the incorporation by reference in this Registration Statement on F-3 (File No. 333-262504) and Form S-8 (File No. 333-226985) of our report dated October 29, 2021, relating to the consolidated financial statements of Dogness (International) Corporation for the year ended June 30, 2021 included in its annual report (Form 20-F) for the year ended June 30, 2021. We also consent to the reference to our firm under the heading "Experts" in such Registration Statement.

/s/ Prager Metis CPAs, LLC

Hackensack, New Jersey
October 11, 2023



An affiliate of Prager Metis International

NORTH AMERICA

EUROPE

ASIA

Guangdong Jiamao Law Firm

October 11, 2023

Consent Letter on Dogness (International) Corporation – Annual Report for Fiscal Year 2023

We hereby consent to the use of our name wherever appearing in Dogness (International) Corporation’s annual report for the fiscal year 2023 and any amendments thereto (the “Annual Report”). We also consent to the filing hereof as an exhibit to the Annual Report.

Sincerely yours,

/s/ Guangdong Jiamao Law Firm

Guangdong Jiamao Law Firm

Dogness Reports Financial Results for Fiscal Year Ended June 30, 2023

Oct. 11, 2023 /PRNewswire/ — Dogness (International) Corporation (“Dogness” or the “Company”) (NASDAQ: DOGZ), a developer and manufacturer of a comprehensive line of Dogness-branded, OEM and private label pet products, today announced its audited financial results for the fiscal year ended June 30, 2023.

Silong Chen, Chairman and Chief Executive Officer of Dogness, commented, “We faced intense competition in the Chinese domestic market, as well as competition from more well-established, better capitalized companies in the United States. In addition, our business operations are and will continue to be negatively affected by post pandemic inflation and ongoing trade disputes between China and the United States, which may result in uncertainties in our export sales and have a significant impact on our financial performance. To mitigate the impacts, we are focusing on developing new customers and markets, as well as developing a new generation of intelligent pet products, such as convenient indoor pet toilets, air purifiers, and other products. We have expanded our sales channels from traditional trading to online shopping channels. At the same time, we are implementing cost-saving measures to improve production efficiency and profit margins.”

“We are committed to enhancing profitability and cash flows by enhancing our brand identity and merchandising capabilities. We also continue to evaluate smaller pet product manufacturers targets in China to expand and integrate the industrial chain to improve operating efficiencies and market share.”

“As we look from a long-term perspective, we believe the above-mentioned strategic initiatives will still help our future sales growth. During fiscal 2023, our products were sold on popular shopping sites and live streaming sales platforms in 32 countries. We hope to enhance our profitability by focusing on operating efficiency and executing our business strategy.”

Financial Results for the Fiscal Year Ended June 30, 2023

Revenues decreased by approximately \$9.5 million, or 35.1%, to approximately \$17.6 million in fiscal 2023 from approximately \$27.1 million in fiscal 2022. The decrease in revenue was primarily attributable to the significant decrease in both domestic and international markets.

Revenue from climbing hooks and other products remained at approximately \$1.8 million in fiscal 2023 and 2022. Revenue from traditional pet products decreased by approximately \$3.1 million, or 27.4%, from approximately \$11.4 million in fiscal 2022, to approximately \$8.3 million in fiscal 2023, primarily reflecting a decreased average selling price per unit. Revenue from intelligent pet products decreased by approximately \$6.1 million, or 45.1%, from approximately \$13.5 million in fiscal 2022 to approximately \$7.4 million in fiscal 2023, primarily reflecting a decrease in sales volume average selling price per unit.

Total sales in international markets decreased by approximately \$3.3 million or 22.6% to approximately \$11.3 million in fiscal 2023, from approximately \$14.5 million in fiscal 2022. The decrease in international sales was the result of the soft landing of the world economy post-pandemic, due in part to inflation and interest rate hikes in the United States. Domestic sales decreased by approximately \$6.2 million or 49.6% from approximately \$12.6 million in fiscal 2022 to approximately \$6.3 million in fiscal 2023. The decrease was mainly due to a decrease in customer orders caused by intense competition in the domestic market.

Cost of revenues decreased by approximately \$3.0 million, or 17.9%, from approximately \$17.0 million in fiscal 2022 to approximately \$13.9 million in fiscal 2023. As a percentage of revenues, the cost of revenue increased by approximately 16.6 percentage points, reaching 79.2% in fiscal 2023 from 62.6% in fiscal 2022, due to increases in labor costs and raw materials prices. The decreased cost of revenue was the result of lower sales volume.

Gross profit decreased by approximately \$6.5 million or 63.9%, to approximately \$3.7 million in fiscal 2023 from approximately \$10.1 million in fiscal 2022, primarily attributable to the decreased average selling price of our intelligent pet products. Overall gross profit margin was 20.8%, a decrease of 16.6 percentage points, as compared to 37.4% in fiscal 2022, caused by increased cost of revenue as a percentage of revenues.

Net loss attributable to Dogness was approximately \$7.5 million in fiscal 2023, as compared to net income of approximately \$3.0 million in fiscal 2022. The net loss was the result of decreased sales and gross profit, as well as increased operating expenses.

About Dogness

Dogness (International) Corporation was founded in 2003 from the belief that dogs and cats are important, well-loved family members. Through its smart products, hygiene products, health and wellness products, and leash products, Dogness' technology simplifies pet lifestyles and enhances the relationship between pets and pet caregivers. The Company ensures industry-leading quality through its fully integrated vertical supply chain and world-class research and development capabilities, which has resulted in over 200 patents and patents pending. Dogness products reach families worldwide through global chain stores and distributors. For more information, please visit: ir.dogness.com.

Forward Looking Statements

No statement made in this press release should be interpreted as an offer to purchase or sell any security. Such an offer can only be made in accordance with the Securities Act of 1933, as amended, and applicable state securities laws. Certain statements in this press release concerning our future growth prospects are forward-looking statements regarding our future business expectations intended to qualify for the “safe harbor” under the Private Securities Litigation Reform Act of 1995, which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding lingering effects of the Covid-19 pandemic on our customers’ businesses and end purchasers’ disposable income, our ability to raise capital on any particular terms, fulfillment of customer orders, fluctuations in earnings, fluctuations in foreign exchange rates, our ability to manage growth, our ability to realize revenue from expanded operation and acquired assets in China and the U.S., our ability to attract and retain highly skilled professionals, client concentration, industry segment concentration, reduced demand for technology in our key focus areas, our ability to successfully complete and integrate potential acquisitions, and unauthorized use of our intellectual property and general economic conditions affecting our industry. Additional risks that could affect our future operating results are more fully described in our United States Securities and Exchange Commission filings. These filings are available at www.sec.gov. Dogness may, from time to time, make additional written and oral forward-looking statements, including statements contained in the Company’s filings with the Securities and Exchange Commission and our reports to shareholders. In addition, please note that any forward-looking statements contained herein are based on assumptions that we believe to be reasonable as of the date of this press release. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company unless it is required by law.

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DOGNESS (INTERNATIONAL) CORPORATION
STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(All amounts in USD)

| | For the Years Ended June 30, | | |
|--|-------------------------------------|---------------------|---------------------|
| | 2023 | 2022 | 2021 |
| Revenues - third party customers | \$ 15,884,281 | \$ 24,882,618 | \$ 23,112,435 |
| Revenues - related parties | 1,700,173 | 2,212,579 | 1,207,686 |
| Total revenues | <u>17,584,454</u> | <u>27,095,197</u> | <u>24,320,121</u> |
| Cost of revenues - third party customers | (12,760,852) | (15,654,952) | (14,501,166) |
| Cost of revenues - related parties | (1,162,314) | (1,301,180) | (663,742) |
| Total cost of revenues | <u>(13,923,166)</u> | <u>(16,956,132)</u> | <u>(15,164,908)</u> |
| Gross profit | <u>3,661,288</u> | <u>10,139,065</u> | <u>9,155,213</u> |
| Operating expenses: | | | |
| Selling expenses | 2,478,163 | 2,077,174 | 1,815,771 |
| General and administrative expenses | 9,800,714 | 6,742,687 | 4,941,036 |
| Research and development expenses | 913,078 | 917,227 | 540,613 |
| Loss from disposal of property, plan and equipment | 15,306 | 327,921 | - |
| Total operating expenses | <u>13,225,261</u> | <u>10,065,009</u> | <u>7,297,420</u> |
| (Loss) income from operations | <u>(9,564,973)</u> | <u>74,056</u> | <u>1,857,793</u> |
| Other income: | | | |
| Interest expense, net | (330,824) | (370,108) | (264,408) |
| Foreign exchange transaction gain (loss) | 800,403 | 246,211 | (228,260) |
| Other income, net | 112,109 | 115,016 | 215,233 |
| Rental income from related parties, net | 295,362 | 173,089 | 354,968 |
| Gain from disposition of a subsidiary | - | - | 5,162 |
| Total other income | <u>877,050</u> | <u>164,208</u> | <u>82,695</u> |
| (Loss) income before income taxes | (8,686,923) | 238,264 | 1,940,488 |
| Income taxes (benefit) expense | <u>(1,277,449)</u> | <u>(2,777,868)</u> | <u>641,460</u> |
| Net (loss) income | <u>(7,459,474)</u> | <u>3,016,132</u> | <u>1,299,028</u> |
| Less: net loss attributable to non-controlling interest | <u>(259,211)</u> | <u>(219,427)</u> | <u>(213,336)</u> |
| Net (loss) income attributable to Dogness (International) Corporation | <u>(7,200,263)</u> | <u>3,235,559</u> | <u>1,512,364</u> |
| Other comprehensive (loss) income: | | | |
| Foreign currency translation (loss) income | (6,204,254) | (3,203,448) | 4,879,315 |
| Comprehensive income (loss) | <u>(13,663,728)</u> | <u>(187,316)</u> | <u>6,178,343</u> |
| Less comprehensive loss attributable to non-controlling interest | <u>(270,210)</u> | <u>(230,583)</u> | <u>(161,701)</u> |
| Comprehensive (loss) income attributable to Dogness (International) Corporation | <u>\$ (13,393,581)</u> | <u>\$ 43,267</u> | <u>\$ 6,340,044</u> |
| Loss earnings per share | | | |
| Basic | \$ (0.18) | \$ 0.10 | \$ 0.05 |
| Diluted | <u>\$ (0.18)</u> | <u>\$ 0.10</u> | <u>\$ 0.05</u> |
| Weighted Average Shares Outstanding | | | |
| Basic | 39,668,780 | 33,711,659 | 27,499,367 |
| Diluted | <u>39,668,780</u> | <u>34,013,634</u> | <u>27,554,811</u> |

DOGNES (INTERNATIONAL) CORPORATION
CONSOLIDATED BALANCE SHEETS
(All amounts in USD)

| | As of June 30, 2023 | As of June 30, 2022 |
|---|------------------------|------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 4,483,308 | \$ 16,605,872 |
| Short-term investments | - | 52,255 |
| Accounts receivable from third-party customers, net | 1,492,762 | 1,649,169 |
| Accounts receivable from related parties | 1,272,384 | 1,094,855 |
| Inventories, net | 2,679,275 | 3,369,885 |
| Due from related parties | 87,430 | 105,403 |
| Prepayments and other current assets | 3,748,955 | 477,237 |
| Advances to supplier - related party | 239,729 | - |
| Total current assets | 14,003,843 | 23,354,676 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment, net | 61,686,849 | 68,447,612 |
| Operating lease right-of-use lease assets | 17,537,096 | 4,589,678 |
| Intangible assets, net | 1,845,006 | 2,063,417 |
| Long-term investments in equity investees | 1,516,900 | 1,642,300 |
| Deferred tax assets | 1,281,634 | 699,039 |
| Total non-current assets | 83,867,485 | 77,442,046 |
| TOTAL ASSETS | \$ 97,871,328 | \$ 100,796,722 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES | | |
| Short-term bank loans | \$ 887,000 | \$ 564,000 |
| Current portion of long term bank loans | 2,959,918 | 1,386,160 |
| Accounts payable | 895,694 | 1,033,476 |
| Accounts payable - related parties | - | 393,625 |
| Due to related parties | 85,843 | 130,468 |
| Advances from customers | 121,687 | 151,462 |
| Taxes payable | 1,015,444 | 1,557,661 |
| Accrued expenses and other current liabilities | 1,026,218 | 1,083,469 |
| Operating lease liabilities, current | 2,326,162 | 184,700 |
| Total current liabilities | 9,317,966 | 6,485,021 |
| NON-CURRENT LIABILITIES | | |
| long term bank loans | 1,595,549 | 4,934,374 |
| Operating lease liabilities, non-current | 10,612,508 | 901,351 |
| Total non-current liabilities | 12,208,057 | 5,835,725 |
| TOTAL LIABILITIES | \$ 21,526,023 | \$ 12,320,746 |
| Commitments and Contingencies (Note 10) | | |
| EQUITY | | |
| Common shares, \$0.002 par value, 90,931,000 Class A shares and 19,069,000 Class B shares authorized, 31,055,259 class A shares and 30,205,259 class A shares issued and outstanding as of June 30, 2023 and 2022, respectively. 9,069,000 class B shares and 9,069,000 class B shares issued and outstanding as of June 30, 2023 and 2022, respectively. | | |
| Class A Common shares | 62,110 | 60,410 |
| Class B Common shares | 18,138 | 18,138 |
| Additional paid-in capital | 85,654,468 | 84,096,866 |
| Statutory reserve | 291,443 | 291,443 |
| Retained earnings | 664,004 | 7,864,267 |
| Accumulated other comprehensive loss | (10,345,832) | (4,152,577) |
| Equity attributable to owners of the Company | 76,344,331 | 88,178,547 |
| Non-controlling interest | 974 | 297,429 |
| Total equity | 76,345,305 | 88,475,976 |
| TOTAL LIABILITIES AND EQUITY | \$ 97,871,328 | \$ 100,796,722 |