

Dongxing International Inc.
Form 10-Q
November 13, 2017
U. S. Securities and Exchange Commission

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

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

For the transition period from _____ to _____

Commission File No.
0-54112

**DONGXING
INTERNATIONAL
INC.**

(Exact Name of
Registrant in its
Charter)

Delaware 16-1783194
(State or
Other
Jurisdiction of (I.R.S.
incorporation Employer I.D.
or No.)
organization)

3F, No. 26, Hengshan Road,
Nangang District, Harbin,
Heilongjiang Province, P.R.
China 150001

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(Address of Principal
Executive Offices)

Issuer's Telephone
Number:
86-1394-6000887
(Registrant's
telephone number,
including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 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 [X]
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 [X] No []

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

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

Large accelerated filer__ Accelerated filer__ Non-accelerated filer__ Smaller reporting company [X]

Emerging growth company [X]

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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

November 13, 2017

Common Voting Stock: 30,000,000

DONGXING INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE FISCAL QUARTER ENDED SEPTEMBER 30, 2017

TABLE OF CONTENTS

	<i>Page No.</i>
<i>Part I. Financial Information</i>	
Item 1. Financial Statements (unaudited):	1
Consolidated Balance Sheets (Unaudited) – September 30, 2017 and December 31, 2016	1
Consolidated Statements of Comprehensive Loss (Unaudited) – for the Three and Nine Months Ended September 30, 2017 and 2016	2
Consolidated Statements of Cash Flows (Unaudited) – for the Nine Months Ended September 30, 2017 and 2016	3
Notes to Consolidated Financial Statements (Unaudited)	4
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures about Market Risk	16
Item 4. Controls and Procedures	16
<i>Part II. Other Information</i>	
Item 1. Legal Proceedings	17
Item 1A. Risk Factors	17
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	17
Item 3. Defaults Upon Senior Securities	17
Item 4. Mine Safety Disclosures	17

Item 5. Other Information	17
Item 6. Exhibits	17
Signatures	18

Dongxing International Inc.
Consolidated Balance Sheets
(Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,188	\$ 12,924
Accounts receivable, net of allowance of \$30,589 and \$29,265, respectively	3,618	3,512
Inventories	3,385	2,640
Lease payment receivable-current	9,417	23,353
Prepaid rent	20,409	9,715
Project in progress	58,002	55,492
Other current assets	11,183	19,579
Total Current Assets	107,202	127,215
Other Assets		
Office equipment, net of accumulated depreciation of \$8,174 and \$7,587, respectively	2,779	1,018
Lease payment receivable	—	3,892
Total Other Assets	2,779	4,910
Total Assets	\$ 109,981	\$ 132,125
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities		
Unearned revenue	\$ 136	\$ 923
Due to related parties	308,640	199,473
Advance from customers	58,002	55,492
Accrued expenses and other payables	33,989	59,502
Total Current Liabilities	400,767	315,390
Total Liabilities	400,767	315,390
Stockholders' Deficiency		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.0001 par value, 250,000,000 shares authorized, 30,000,000 shares issued and outstanding	3,000	3,000
Additional paid-in capital	849,745	828,343
Stock subscription receivable	(250,000)	(250,000)
Accumulated deficit	(839,660)	(725,165)
Accumulated other comprehensive loss	(9,391)	(1,389)
Total Stockholders' Deficiency of Dongxing International Inc.	(246,306)	(145,211)
Non-controlling interest	(44,480)	(38,054)
Total Stockholders' Deficiency	(290,786)	(183,265)
Total Liabilities and Stockholders' Deficiency	\$ 109,981	\$ 132,125

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

1

Dongxing International Inc.
Consolidated Statements of Comprehensive Loss
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenue	\$762	\$2	\$1,524	\$5,899
Cost of revenue	—	169	521	477
Gross profit (loss)	762	(167)	1,003	5,422
Operating expenses				
Selling, general and administrative expense	39,209	49,860	135,454	134,331
Total operating expenses	39,209	49,860	135,454	134,331
Loss from operations	(38,447)	(50,027)	(134,451)	(128,909)
Other income (expense):				
Interest income (expense), net	2	6	12	(560)
Subsidy income	—	—	13,847	—
Other income (expense)	30	(2)	92	281
Total other income (expense)	32	4	13,951	(279)
Loss before income taxes	(38,415)	(50,023)	(120,500)	(129,188)
Income tax provision	—	—	—	—
Net loss	(38,415)	(50,023)	(120,500)	(129,188)
Less: Loss attributable to non-controlling interest	(1,916)	(2,329)	(6,005)	(6,287)
Net loss attributable to Dongxing International Inc.	(36,499)	(47,694)	(114,495)	(122,901)
Other comprehensive income (loss)				
Foreign currency translation adjustment	(4,570)	(629)	(8,423)	197
Comprehensive loss	(42,985)	(50,652)	(128,923)	(128,991)
Less: Comprehensive loss attributable to non-controlling interest	(2,145)	(2,360)	(6,426)	(6,277)
Comprehensive loss attributable to Dongxing International Inc.	\$(40,840)	\$(48,292)	\$(122,497)	\$(122,714)
Loss per share - Basic and Diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average shares outstanding - Basic and Diluted	30,000,000	30,000,000	30,000,000	30,000,000

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

Dongxing International Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	For the Nine Months Ended September 30,	
	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	\$(120,500)	\$(129,188)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	238	14
Change in operating assets and liabilities:		
Accounts receivable	52	10,779
Inventory	(611)	18
Lease payment receivable	18,608	20,665
Prepaid rent	(10,011)	(15,612)
Project in progress	—	(14,579)
Other current assets	9,062	(139)
Unearned revenue	(810)	(1,938)
Advance from customers	—	35,636
Accrued expenses and other payables	(27,534)	(21,391)
Net cash used in operating activities	(131,506)	(115,735)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of office equipment	(1,912)	(274)
Net cash used in investing activities	(1,912)	(274)
CASH FLOW FROM FINANCING ACTIVITIES		
Capital contribution	21,402	15,204
Repayment of short-term bank loans	—	(30,409)
Proceeds from related party loan	100,004	77,157
Net cash provided by financing activities	121,406	61,952
Effect of exchange rate changes on cash	276	(1,902)
DECREASE IN CASH	(11,736)	(55,959)
Cash - beginning of period	12,924	58,914
Cash - ending of period	\$1,188	\$2,955
Supplement disclosure information		
Cash paid for interest	\$—	\$578
Cash paid for income taxes	\$—	\$—

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

DONGXING INTERNATIONAL INC.

Notes To Consolidated Financial Statements (Unaudited)

NOTE 1 - CORPORATE INFORMATION

Dongxing International Inc. (the “Company” or “Dongxing”) was incorporated in June 2010 in accordance with the laws of the State of Delaware under the name Apex 1, Inc. On November 19, 2015 the Company's corporate name was changed to “Dongxing International Inc.”

On September 30, 2016, the Company entered into and closed a share exchange agreement with Central Dynamic Holdings Limited (“Central Dynamic”) and its shareholders. Pursuant to the terms of the exchange agreement, the shareholders, who together owned 100% of the ownership rights in Central Dynamic, agreed to transfer all of the issued and outstanding shares of common stock into the Company in exchange for the issuance of an aggregate of 25,000,000 shares of the Company's common stock, par value \$0.0001 per share.

As a result of the share exchange, the Central Dynamic shareholders become the majority shareholders and have control of the Company. The acquisition of Central Dynamic was accounted for as a reverse merger effected by a share exchange agreement. Dongxing is considered the legal acquirer and Central Dynamic and its subsidiaries is considered the accounting acquirer. Accordingly, the historical financial statements presented are those of Central Dynamic and its subsidiaries.

Central Dynamic Holdings Limited is incorporated under the laws of the British Virgin Islands. Dongxing Holdings Limited (“Dongxing BVI”), which is a wholly owned subsidiary of Central Dynamic, is also incorporated under the laws of the British Virgin Islands. Dongxing Holdings Limited (“Dongxing HK”), a wholly owned subsidiary of Dongxing BVI, is incorporated under the laws of Hong Kong. Harbin Donghui Technology Co., Ltd. (“Harbin Donghui”), a wholly-owned subsidiary of Dongxing HK, is incorporated under the laws of the People's Republic of China (“PRC”). Harbin Dongxing Energy Saving Technical Service Co., Ltd. (“Harbin Dongxing”), a limited liability company incorporated under the laws of the PRC, is effectively and substantially controlled by Harbin Donghui through a series of agreements known as variable interest agreements (the “VIE agreements”) dated March 30, 2016 pursuant to which Harbin Dongxing became Harbin Donghui's contractually controlled affiliate. The VIE Agreements provide that Harbin Donghui will receive 95% of the net profit or loss derived from the operations of Harbin Dongxing and its subsidiaries. Central Dynamic and its wholly owned subsidiaries, Dongxing BVI, Dongxing HK and Harbin Donghui, are holding companies with no business operation.

Harbin Dongxing provides Energy Diagnosis, Project Design, Project Auditing, Equipment Procurement Services, Construction Engineering, Personnel Training, and Technology Consulting to customers. Harbin Dongxing Online Technology Co., Ltd (“Dongxing Online”), which is 100% owned by Harbin Dongxing, engages in Software Development, Website Production, Systems Integration, Web Merchandise Sales, and Import and Export of Goods. Until November 4, 2016, Harbin Dongrong Business Management Consulting Co., Ltd (“Harbin Dongrong”), which is 100% owed by Harbin Dongxing, engaged in lighting design and construction for urban roads and landscapes. Since that date, the scope of Harbin Dongrong's business has entailed business consulting, marketing planning, and advertising.

DONGXING INTERNATIONAL INC.

Notes To Consolidated Financial Statements (Unaudited)

NOTE 2 – GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company had a working capital deficit of \$293,565 and an accumulated deficit of \$839,660 as of September 30, 2017, at which time the Company's stockholders' deficiency was \$246,306. The Company has not generated cash or income from its operation since inception. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company plans to rely on the proceeds from loans from both unrelated and related parties to provide the resources necessary to fund the development of our business plan and operations. The Company also plans to raise funds from domestic and foreign banks and/or financial institutions to increase working capital in order to meet capital demands. However, no assurance can be given that the Company will be successful in raising additional capital.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation and Consolidation

The accompanying unaudited interim consolidated financial statements ("interim statements") of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X issued by the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company's management, the accompanying unaudited interim financial statements contain all the adjustments necessary (consisting only of normal recurring accruals) to present fairly the financial position of the Company as of September 30, 2017 and the results of operations and cash flows for the periods ended September 30, 2017 and 2016. The financial data and other information disclosed in these notes to the interim financial statements related to these periods are unaudited. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the operating results for the full fiscal year or any future period. The balance sheet as of December 31, 2016 has been derived from the audited financial statements at that date. These unaudited consolidated financial statements should be read in conjunction with the financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on April 17, 2017.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries and entities controlled through the VIE agreements. All significant inter-company accounts and transactions have been eliminated in consolidation.

DONGXING INTERNATIONAL INC.

Notes To Consolidated Financial Statements (Unaudited)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The Company's consolidated financial statements have been prepared in accordance with US GAAP. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. The significant areas requiring the use of management estimates include, but are not limited to, the allowance for doubtful accounts receivable, estimated useful life and residual value of property, plant and equipment, provision for staff benefit, recognition and measurement of deferred income taxes and valuation allowance for deferred tax assets. Although these estimates are based on management's knowledge of current events and actions management may undertake in the future, actual results may ultimately differ from those estimates and such differences may be material to our consolidated financial statements.

Impairment of Long-Lived Assets

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

If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. During the reporting periods there was no impairment loss recognized on long-lived assets.

Fair Value of Financial Instruments

ASC Topic 820, Fair Value Measurement and Disclosures, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy that requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level one — Quoted market prices in active markets for identical assets or liabilities;
- Level two — Inputs other than level one inputs that are either directly or indirectly observable; and

- Level three — Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter.

There are no financial instruments measured at fair value on a recurring basis.

DONGXING INTERNATIONAL INC.

Notes To Consolidated Financial Statements (Unaudited)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable, net of allowance

Accounts receivable is stated at cost, net of an allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses, if any, resulting from the failure of customers to make required payments. The Company reviews the accounts receivable on a periodic basis and makes allowances where there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, the customer's payment history, its current credit-worthiness and current economic trends.

Inventories

Inventories consist of raw materials and energy saving lights which are valued at the lower of cost or market. We determine cost on the basis of the weighted average method. The Company periodically reviews inventories for obsolescence and any inventories identified as obsolete are reserved or written off. Although we believe that the assumptions we use in estimate inventory write-downs are reasonable, future changes in these assumptions could provide a significantly different result. During the three and nine months ended September 30, 2017 and 2016, no inventory markdown was recorded.

Property and equipment

Property and equipment, consisting of office equipment, is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Gains or losses on disposals are reflected as gain or loss in the year of disposal. The cost of improvements that extend the life of buildings, machinery and equipment are capitalized. These capitalized costs may include structural improvements, equipment and fixtures. All ordinary repair and maintenance costs are expensed as incurred.

Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of the assets, generally 3 years for office equipment. Depreciation expense for the nine months ended September 30, 2017 and 2016 were \$238 and \$14 respectively.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 605, *Revenue Recognition*. Revenue from sales of products is recognized when persuasive evidence of sales arrangements exist, title and risk of loss have been transferred to the customers, the sales amounts are fixed and determinable and collection of the revenue is reasonably assured. Customers have no contractual right to return products.

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Revenue from LED lights installation projects is recognized per ASC 605-35 Construction-Type and Production-Type Contracts. All projects were less than one year. Contract price is recorded as revenue once the project is completed. Deposits received from customers before the project is completed are recorded as advance from customers. The costs of the projects, including materials used and other labor costs incurred are recorded as Project in Progress and recognized as cost of project once the project is complete.

7

DONGXING INTERNATIONAL INC.

Notes To Consolidated Financial Statements (Unaudited)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Revenue from LED lights installation projects with profit sharing terms is recognized per ASC 840-30 Capital Leases. On the profit sharing installation projects, the Company transfers ownership of the LED lights to customers by the end of the contract period with no charge. The Company accounts for this type of transactions as a sales-type lease and records as revenue the present value of the total profit sharing receipts from customers at the inception of the profit sharing period and records a lease payment receivable. The difference between total amount of profit sharing receipts and the present value of the profit sharing receipts is recorded as unearned revenue to be amortized over the term of profit sharing period.

Income Taxes

We use the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

ASC Topic 740.10.30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

Comprehensive Income

Comprehensive income is defined to include all changes in equity except those resulting from investments by shareholders and distributions to shareholders. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. Comprehensive income includes net income and the foreign currency translation gain, net of tax.

DONGXING INTERNATIONAL INC.**Notes To Consolidated Financial Statements (Unaudited)****NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Foreign Currency**

The Company and its subsidiaries maintain their books and records in their functional currency, RMB or HKD. The consolidated financial statements of the Company are translated from Renminbi (“RMB”) or Hong Kong dollars (“HKD”) into United States dollars (U.S. Dollars or “US\$” or “\$”). Accordingly, assets and liabilities of the Company and its subsidiaries are translated from RMB or HKD to U.S. Dollars using the applicable exchange rates prevailing at the balance sheet date. Items on the statement of comprehensive income (loss) and cash flows are translated at average exchange rates during the reporting period. Equity accounts are translated at historical rates. Adjustments resulting from the translation of the Company’s financial statements are recorded as accumulated other comprehensive income (loss).

The exchange rates used to translate amounts in RMB or HKD into U.S. Dollars for the purposes of preparing the consolidated financial statements are based on the rates as published on the website of People’s Bank of China and are as follows:

	September 30, 2017	December 31, 2016
Balance sheet items, except for equity accounts	US\$1=RMB6.6369 US\$1=HKD7.8112	US\$1=RMB6.9370 US\$1=HKD7.7552
	Nine Months Ended September 30,	
	2017	2016
Items in the statements of comprehensive loss and cash flows	US\$1=RMB6.7983 US\$1=HKD7.7882	US\$1=RMB6.5771 US\$1=HKD7.7652

No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the above rates. The value of RMB against U.S. dollars and other currencies may fluctuate and is affected by, among other things, changes in China’s political and economic conditions. Any significant revaluation of RMB may materially affect the Company’s financial condition in terms of U.S. dollar reporting.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board or other standard bodies that may have an impact on the Company’s accounting and reporting. The Company believes that any recently issued accounting pronouncements and other authoritative guidance for which the effective date is in the future either will not have an impact on its accounting or reporting or that such impact will not be material to its financial position, results of operations, and cash flows when implemented.

DONGXING INTERNATIONAL INC.**Notes To Consolidated Financial Statements (Unaudited)****NOTE 4 – OTHER CURRENT ASSETS**

Other current assets consist of the following:

	September 30, 2017	December 31, 2016
Bid deposit	\$ 75	\$ 17,299
Employee advance	9,982	1,062
Other	1,126	1,218
	\$ 11,183	\$ 19,579

NOTE 5 - RELATED PARTY TRANSACTIONS

Due to related parties are non-interest bearing and due on demand. The balance of due to related parties consists of the following:

		September 30, 2017	December 31, 2016
Stockholders			
Cheng,Zhao	(1)	\$ 220,286	\$ 75,711
Other related parties			
Harbin Dongke Optronics Science and Technology Co., Ltd. ("Dongke")	(2)	88,354	123,762
Total due to related parties		\$ 308,640	\$ 199,473

(1) Mr. Cheng Zhao is the Company CEO and a stockholder. During the nine months ended September 30, 2017 and 2016, Mr. Cheng advance \$140,035 and \$ 85,591 to the Company.

(2) Dongke is a company established in China. Mr. Cheng Zhao, stockholder and Chief Executive Officer of the Company, was the president of Dongke until 2015. During the nine months ended September 30, 2017 and 2016, the Company made repayment of \$40,031 and \$1,657 to Dongke.

NOTE 6 - ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables consisted of the following:

	September 30, 2017	December 31, 2016
Accrued expenses	\$ 6,484	\$ 34,734
Tax payable	209	1,704
Deposit payable	25,690	23,064
Others	1,606	-
	\$ 33,989	\$ 59,502

DONGXING INTERNATIONAL INC.**Notes To Consolidated Financial Statements (Unaudited)****NOTE 7 - STOCKHOLDERS' DEFICIENCY**

During the nine months ended September 30, 2017 and 2016, Mr. Cheng Zhao, the Company CEO and a stockholder, made capital contribution to the Company of \$21,402 and \$15,204, respectively.

NOTE 8 - INCOME TAXES

The Company was incorporated in the United States and has operations in four tax jurisdictions - the United States, the Hong Kong Special Administrative Region ("HK SAR"), the PRC, and the British Virgin Islands ("BVI").

The Company's BVI operations are not subject to any taxes according to BVI tax law. The Company's HK SAR subsidiary is subject to a 16.5% profit tax based on its taxable net profit. The Company's U.S. operations are subject to income tax according to U.S. tax law.

The Company's three operating subsidiaries, Harbin Dongxing, Dongxing Online and Harbin Dongrong, are generally subject to PRC enterprise income tax ("EIT"). These three companies are subject to an EIT rate of 25% under China's Unified Enterprise Income Tax Law ("New Tax Law").

A reconciliation of the provision for income taxes determined at the local income tax rate to the Company's effective income tax rate is as follows:

	Nine Months Ended	
	September 30,	
	2017	2016
Pre-tax loss	\$(120,500)	\$(129,188)
U.S. federal corporate income tax rate	35 %	35 %
Expected U.S. income tax credit	(42,175)	(45,216)
Tax rate difference between U.S. and foreign operations	12,070	12,919
Change of valuation allowance	30,105	32,297
Effective tax expense	\$—	\$—

The Company had deferred tax assets as follows:

	September 30,	December 31,
	2017	2016
Net operating losses carried forward	\$195,784	\$183,324
Less: Valuation allowance	(195,784)	(183,324)
Net deferred tax assets	\$—	\$—

As of September 30, 2017, the Company has approximately \$784,000 net operating loss carryforwards available in China to reduce future taxable income. The net operating loss of Chinese subsidiaries could be carried forward for a period of not more than five years from the year of the initial loss pursuant to relevant PRC tax laws and regulations. It is more likely than not that the deferred tax assets cannot be utilized in the future because there will not be significant future earnings from the entity which generated the net operating loss. Therefore, the Company recorded a

full valuation allowance on its deferred tax assets.

DONGXING INTERNATIONAL INC.

Notes To Consolidated Financial Statements (Unaudited)

NOTE 8 - INCOME TAXES (continued)

As of September 30, 2017 and December 31, 2016, the Company has no material unrecognized tax benefits which would favorably affect the effective income tax rate in future periods and does not believe that there will be any significant increases or decreases of unrecognized tax benefits within the next twelve months. No interest or penalties relating to income tax matters have been imposed on the Company during the nine months ended September 30, 2017 and 2016, and no provision for interest and penalties is deemed necessary as of September 30, 2017 and December 31, 2016.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or its withholding agent. The statute of limitations extends to five years under special circumstances, which are not clearly defined. In the case of a related party transaction, the statute of limitation is ten years. There is no statute of limitation in the case of tax evasion.

NOTE 9 - SUBSEQUENT EVENT

The Company has evaluated the existence of significant events subsequent to the balance sheet date through the date the financial statements were issued and has determined that there were no subsequent events or transactions which would require recognition or disclosure in the financial statements.

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

Accounting for Variable Interest

Dongxing International is a holding company whose only asset is an indirect 100% ownership interest in Harbin Donghui, a Wholly Foreign Owned Entity organized under the laws of the People's Republic of China on January 13, 2016. On March 30, 2016, Harbin Donghui entered into three agreements with Harbin Dongxing and with the equity owners in Harbin Dongxing. Collectively, the VIE agreements provide Harbin Donghui exclusive control over the business of Harbin Dongxing, and provide that 95% of the gain or loss realized by Harbin Dongxing accrues to the account of Harbin Donghui.

The accounting effect of the VIE Agreements between Harbin Donghui and Harbin Dongxing is to cause the balance sheets and financial results of Harbin Dongxing to be consolidated with those of Harbin Donghui, with respect to which Harbin Dongxing is now a variable interest entity. Since the parties to the VIE Agreements were both controlled by Cheng Zhao, who is CEO of both Harbin Donghui and Harbin Dongxing, the financial statements included in this report reflect the consolidation of the results of operations and cash flows of Harbin Dongxing since its inception.

Results of Operations

The business of Harbin Dongxing at this time consists entirely of installation of lighting products, primarily in new construction projects. For the future, we expect that online sales by Dongxing Online, a subsidiary of Harbin Dongxing, will produce the greater portion of our revenue. But those sales will not commence until we launch operations of the Dongxing Online website.

Our business at this time, therefore, is very seasonal. The weather in Heilongjiang Province is very cold in the first five months of the year, with much snow and ice, making installation of lighting fixtures nearly impossible. Generally, the construction projects in which we are involved are installed during the period from June to December. Project acceptance and payment usually occurs in November and December. As a result, the bulk of our revenues are realized in the second half of the year, particularly the fourth quarter.

For the foregoing reasons, sales in the first nine months of 2017 and the first nine months of 2016 were negligible: \$1,524 and \$5,899 respectively. Revenue in 2017 primarily represented the amortization of unearned revenue from EMC sales we made in prior periods. This occurs because a large portion of our revenue is recorded on our energy management contracts ("EMC"). These are arrangements in which we install lighting products in exchange for a share of the ongoing profits realized by our customers. EMC sales are recorded as sales-type leases, with the present value of the contracted lease payments recorded on our balance sheet as lease payment receivables and the balance of the contracted lease payments recorded as unearned revenue. Through the term of the EMC contract, as payments are made by the customer, the unearned revenue is amortized and recorded as sales revenue. As of September 30, 2017, we had one EMC arrangement still amortizing in this fashion.

Our operating expenses of \$135,454 and \$134,331 for the first nine months of 2017 and 2016, respectively, were comprised, primarily, of professional expenses, salaries and office rent. Our labor cost is high, relative to revenue, because the majority of our employees are engaged in developing and marketing our online platform. Operating expenses were somewhat greater in the first six months of 2017 than during the first six months of 2016, mainly due to increase in professional fees and rent. The disparity was erased, for the most part, in the third quarter, as expenses incurred in connection with the reverse merger during the third quarter of 2016 brought the nine months comparison approximately equal.

After taking into account a government subsidy of \$13,847 that we received in the second quarter of 2017, our interest expense (net of interest income) and miscellaneous other income, we recorded net loss of \$38,415 and \$50,023 for the third quarters of 2017 and 2016, respectively, and \$120,500 and \$129,188 for the nine months ended September 30, 2017 and 2016, respectively. Our VIE agreements, however, assign to Harbin Donghui only 95% of the profit or loss reported by Harbin Dongxing. For that reason, we reduced the net loss on the Dongxing International consolidated statements by an allocation to non-controlling interest. After that allocation, the net loss attributable to the shareholders of Dongxing International Inc. was \$36,499 and \$47,694 for the third quarters of 2017 and 2016, respectively, and \$114,495 and \$122,901 for the nine months ended September 30, 2017 and 2016, respectively. We expect to continue to incur losses until our online marketing business is launched, as we are paying the expenses of that business without any offsetting revenue.

Our reporting currency is the U.S. dollar. Our local currency, the Renminbi (RMB) or Hong Kong Dollars (HKD), are our functional currency. Results of operations and cash flow are translated at average exchange rates during the period being reported upon, and assets and liabilities are translated at the unified exchange rate as quoted by the People's Bank of China on the balance sheet date. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statements of stockholders' equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. For the first nine months of 2017 foreign currency translation adjustments of \$8,423 have been reported as other comprehensive loss in the consolidated statements of comprehensive loss, compared to a comprehensive gain of \$197 recorded for the first nine months of 2016.

Liquidity and Capital Resources

The development of our company has been funded primarily by contributions to capital and loans from our equity-holders. As a result, at September 30, 2017 we had no debt other than \$308,640 owed to related parties. This included \$88,354 owed to Harbin Dongke Optronics Science and Technology Co., Ltd., representing lighting products sold to Harbin Dongrong in 2013 for a project that is not yet completed. The debt became consolidated with our balance sheet when our Chairman, Cheng Zhao, contributed Harbin Dongrong to Harbin Dongxing. The debt will be satisfied when the project is completed, Harbin Dongrong is paid, and in turn Harbin Dongrong pays Harbin Dongke. Cheng Zhao was the General Manager of Harbin Dongke until the end of 2015.

At September 30, 2017 we had a working capital deficit of \$(293,565), representing an increase of \$105,390 since the beginning of 2017 - i.e. approximately the amount of our net loss for the first nine months of the year. Our company is viable despite the working capital deficit because the amount we owe to related parties exceeds the deficit, and we will not be required to satisfy the related party debts until we have sufficient cash flow.

Our operations used \$131,506 in cash during the first nine months of 2017 and \$115,735 in cash during the first nine months of 2016. Our use of cash is generally less than our net loss primarily due to collections on EMC contracts, the present value of which are taken into income upon installation, although payments are spread over the life of the contract. However, in both the first nine months of 2017 and the first nine months of 2016, we prepaid rent on our offices and also reduced our accrued expenses, both of which drained our cash resources.

The \$131,506 cash used in operations during the first nine months of 2017 was funded primarily by loans from related parties totaling \$100,004, supplemented by a capital contribution of \$21,402.

The opinion of our independent registered public accounting firm on our financial statements for the year ended December 31, 2016 expressed substantial doubt as to whether our company is a going concern, due to our limited revenue and negative cash flow. We believe that our related parties will continue to fund our operations for the foreseeable future, and so believe that we can sustain operations at our current level. However, full implementation of our business plan will require significant capital infusions or third party loans. We have no commitment for either equity or debt financing at this time.

Restrictions on Transfers of Funds

The VIE Agreements among Harbin Donghui and the Harbin Dongxing Shareholders provide that Harbin Donghui is entitled to 95% of the net profits (and will bear all losses) arising from Harbin Dongxing's operations plus a monthly fee of RMB 10,000 (\$1,507). The VIE Agreements also entitle Harbin Donghui to manage the operations and control the cash flows of Harbin Dongxing. Although Harbin Donghui is entitled to Harbin Dongxing's profits, any distributions of such profits from Harbin Donghui to our U.S. parent company must comply with applicable Chinese laws affecting payments from foreign invested enterprises incorporated in China to their equity holders.

The sales revenue and expenses of Harbin Dongxing are denominated in RMB. The Chinese government strictly regulates conversion of RMB into foreign currencies. Currently, Harbin Dongxing and Harbin Donghui may purchase foreign currencies for settlement of current account transactions, including payments of dividends, without the approval of the State Administration of Foreign Exchange ("SAFE"), by complying with certain procedural requirements. Pursuant to applicable Chinese laws and regulations, foreign invested enterprises incorporated in China, such as Harbin Donghui, are required to apply for "Foreign Exchange Registration Certificates." Currently, conversion within the scope of the "current account" (e.g. remittance of foreign currencies for payment of dividends, trade and service-related foreign exchange transactions, etc.) can be effected without requiring the approval of SAFE, but must be effected through authorized Chinese banks in accordance with regulatory procedures. However, conversion of currency in the "capital account" (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE. Compliance with those procedural requirements can result in delays in obtaining foreign exchange, which could interfere with offshore activities by the Company, such as acquisitions, offshore investments, or the payment of dividends to the Company's shareholders. Because of the effort involved in obtaining foreign currencies in exchange for RMB, the Company intends to pay most of the operating expenses of its U.S. parent from dollars loaned to the Company by related parties.

Under PRC regulations, the Company's operating subsidiary, Harbin Dongxing, may pay dividends only out of its accumulated profits, if any, determined in accordance with the accounting standards and regulations prevailing in the PRC. In addition, Harbin Dongxing is required to set aside at least 10% of its accumulated profits each year, if any, to fund the statutory general reserve until the balance of the reserve reaches 50% of its registered capital. The amount in excess of 10% of accumulated profits that may be contributed to the statutory general reserve is at Harbin Dongxing's discretion. The statutory general reserve is not distributable in the form of cash dividends to the Company and can be used to make up cumulative prior year losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings, or by increasing the par value of the shares currently held by them, provided that the reserve balance after such use is not less than 25% of the registered capital. As of September 30, 2017, no amount has been appropriated from retained earnings and set aside for the statutory reserve by Harbin Dongxing. There remains approximately 2,500,000 RMB (\$376,682) to be appropriated from our future profits and set aside for the statutory reserve until we have satisfied the reserve requirement.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.

Recent Accounting Pronouncements

There were no recent accounting pronouncements that have or will have a material effect on the Company's financial position or results of operations.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of September 30, 2017, Cheng Zhao, our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures have the following material weaknesses:

- The relatively small number of employees who are responsible for accounting functions prevents us from segregating duties within our internal control system.
- Our internal financial staff lack expertise in identifying and addressing complex accounting issued under U.S. Generally Accepted Accounting Principles.
- Our Chief Financial Officer is not familiar with the accounting and reporting requirements of a U.S. public company.
- We have not developed sufficient documentation concerning our existing financial processes, risk assessment and internal controls.

Based on his evaluation, Mr. Cheng concluded that the Company's system of disclosure controls and procedures was not effective as of September 30, 2017 for the purposes described in this paragraph.

Changes in Internal Controls. There was no change in internal control over financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934) identified in connection with the evaluation described in the preceding paragraph that occurred during Dongxing International Inc.'s third fiscal quarter that has materially affected or is reasonably likely to materially affect Dongxing International Inc.'s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A Risk Factors

There have been no material changes from the risk factors included in the Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2 Unregistered Sale of Securities and Use of Proceeds

(a) Unregistered sales of equity securities

There were no unregistered sales of equity securities by the Company during the third quarter of fiscal 2017.

(c) Purchases of equity securities

The Company did not repurchase any of its equity securities that were registered under Section 12 of the Securities Exchange Act during the third quarter of fiscal 2017.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

31 Rule 13a-14(a) Certification

32 Rule 13a-14(b) Certification

101.INS XBRL Instance

101.SCH XBRL Schema

101.CAL XBRL Calculation

101.DEF XBRL Definition

101.LAB XBRL Label

101.PRE XBRL Presentation

SIGNATURES

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

DONGXING INTERNATIONAL INC.

Date: November 13, 2017 By: /s/ Cheng Zhao

Cheng Zhao (Chief Executive Officer and Chief Financial Officer)

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