

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

FORM 20-F

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

OR

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

For the Fiscal Year Ended December 31, 2020

OR

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

OR

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

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-38307

**RETO ECO-SOLUTIONS, INC.**  
(Exact Name of registrant as specified in its charter)

**Not Applicable**  
(Translation of Registrant's name into English)

**British Virgin Islands**  
(Jurisdiction of incorporation or organization)

**c/o Beijing REIT Technology Development Co., Ltd.**  
**Building X-702, 60 Anli Road, Chaoyang District, Beijing**  
**People's Republic of China 100101**  
(Address of principal executive offices)

**Hengfang Li**  
**c/o Beijing REIT Technology Development Co., Ltd.**  
**Building X-702, 60 Anli Road, Chaoyang District, Beijing**  
**People's Republic of China 100101**  
**(+86) 10-64827328**  
**Email: ir@retoeco.com**

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, \$0.001 par value per share	RETO	The Nasdaq Capital Market

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

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

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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: 25,135,000 outstanding common shares

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

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

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

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

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

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

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

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

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

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

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

Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☒

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### Defined Terms and Conventions

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

- The terms “we,” “us,” “Company” “our company,” and “our” refers to ReTo Eco-Solutions, Inc. and its subsidiaries;
- *ReTo Eco-Solutions, Inc. (“ReTo Eco-Solutions”), a British Virgin Islands holding company;*
- *REIT Holdings (China) Limited (“REIT Holdings”), a Hong Kong limited company and a wholly owned subsidiary of ReTo Eco-Solutions;*
- *Beijing REIT Technology Development Co., Ltd. (“Beijing REIT”), a China limited company and a wholly owned subsidiary of REIT Holdings;*
- *Xinyi REIT Ecological Technology Co., Ltd. (“REIT Ecological”), a China limited company and a wholly owned subsidiary of REIT Holdings, and was deregistered on March 27, 2019;*
- *Gu’an REIT Machinery Manufacturing Co., Ltd. (“Gu’an REIT”), a China limited company and a wholly owned subsidiary of Beijing REIT, all the equity interest of which was transferred to Hebei Huishitong Technology Co., Ltd. on January 17, 2020;*
- *Beijing REIT Ecological Engineering and Technology Co., Ltd. (“REIT Eco Engineering”), a China limited company and a wholly owned subsidiary of Beijing REIT;*
- *Langfang Ruirong Mechanical and Electrical Equipment Co., Ltd. (“Ruirong”), a China limited company and a wholly owned subsidiary of Beijing REIT;*
- *Nanjing Dingxuan Environment Protection Technology Development Co., Ltd. (“Dingxuan”), a China limited company and a wholly owned subsidiary of Beijing REIT;*
- *REIT Technology Development (America), Inc. (“REIT US”), a California corporation and a wholly owned subsidiary of Beijing REIT;*
- *REIT MingSheng Environment Protection Construction Materials (Changjiang) Co., Ltd. (“REIT Changjiang”), a China limited company and 84.32% owned by Beijing REIT and 15.68% owned by REIT Holdings;*
- *Hainan REIT Construction Project Co., Ltd. (“REIT Construction”), a China limited company and a wholly owned subsidiary of REIT Changjiang;*
- *Horgos Ta-REIT Environment Technology Co., Ltd. (“Horgos Ta-REIT”), a China limited company and a wholly owned subsidiary of REIT Eco Engineering, and was deregistered on May 15, 2019;*
- *REIT Xinyi New Material Co., Ltd (“REIT Xinyi”), a China limited company and a 70% owned subsidiary of Beijing REIT;*
- *REIT Q GREEN Machines Private Limited (“REIT India”), an India limited company and a 51% owned subsidiary of Beijing REIT;*
- *REIT Ecological Technology Co., Ltd. (“REIT Yancheng”), a China limited company and a wholly owned subsidiary of REIT Holdings;*

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- *Lingqiu REIT Dongtian Ecological Technology Co., Ltd. (“REIT Lingqiu”), a China limited company, 51% equity interest of which was owned by REIT Eco Engineering and then transferred to Pengqing Zhi on November 4, 2019;*
- *Datong Ruisheng Environment Protection Engineering Co., Ltd. (“Datong Ruisheng”), a China limited company and a wholly owned subsidiary of REIT Eco Engineering;*
- *Yunnan Litu Technology Development Co., Ltd. (“Yunnan Litu”), a China limited company, 55% equity interest of which was owned by REIT Yancheng and then transferred to Dali Zhongrong Ruitu Environmental Protection Engineering Co., Ltd., Jiangsu Xinchun Biological Technology Co., Ltd., and Yonglan Li on July 13, 2020;*
- *Yangbi Litu Ecological Technology Co., Ltd. (“Yangbi Litu”), a China limited company, with 55% of its equity interest owned by REIT Yancheng and 45% of its equity interest owned by Yunnan Litu;*
- *China Operating Companies or China Operating Company refer to, collectively or individually, as the case may be, to Beijing REIT, REIT Ecological, REIT Eco Engineering, Ruirong, Dingxuan, REIT Changjiang, REIT Construction, , REIT Xinyi, and REIT Yancheng.*
- “shares” and “common shares” refer to our common shares, \$0.001 par value per share;
- “China” and “PRC” refer to the People’s Republic of China, excluding, for the purposes of this annual report only, Macau, Taiwan and Hong Kong; and
- all references to “RMB,” and “Renminbi” are to the legal currency of China, and all references to “USD,” and “U.S. Dollars” are to the legal currency of the United States.

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

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## FORWARD-LOOKING STATEMENTS

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

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

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## PART I

### Item 1. Identity of Directors, Senior Management and Advisers

Not applicable for annual reports on Form 20-F.

### Item 2. Offer Statistics and Expected Timetable

Not applicable for annual reports on Form 20-F.

### Item 3. Key Information

#### A. *Selected Financial Data.*

The following table presents the selected consolidated financial information for our company. The selected consolidated statements of operations data for the three years ended December 31, 2020, 2019 and 2018, and the selected consolidated balance sheets data as of December 31, 2020 and 2019 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below. Our audited consolidated financial statements are prepared and presented in accordance with US GAAP.

**Statement of operations data:**

	For the Years ended December 31,		
	2020	2019	2018
Revenues – third party customers	\$ 9,506,412	\$ 29,467,755	\$ 27,354,058
Revenues – related parties	228,088	83,972	1,940,811
<b>Total Revenues</b>	<b>9,734,500</b>	<b>29,551,727</b>	<b>29,294,869</b>
Cost of revenues – third party customers	8,429,103	22,136,559	13,897,146
Cost of revenues – related parties	148,034	54,598	1,372,302
<b>Total cost of revenues</b>	<b>8,577,137</b>	<b>22,191,157</b>	<b>15,269,448</b>
<b>Gross Profit</b>	<b>1,157,363</b>	<b>7,360,570</b>	<b>14,025,421</b>
Operating Expenses			
Selling expenses	1,282,299	1,308,436	1,902,323
General and administrative expenses	4,639,879	3,954,024	4,976,118
Bad debt expenses	5,729,544	8,331,344	1,724,133
Impairment of fixed assets	2,618,831	1,490,298	-
Research and development expenses	334,904	438,371	656,563
<b>Total Operating Expenses</b>	<b>14,605,457</b>	<b>15,522,473</b>	<b>9,259,137</b>
<b>(Loss) income from Operations</b>	<b>(13,448,094)</b>	<b>(8,161,903)</b>	<b>4,766,284</b>
<b>Other Income (expenses):</b>			
Interest expense	(1,544,515)	(1,253,855)	(1,069,758)
Interest income	(25)	4,549	5,940
Impairment of acquisition deposit	-	(2,172,000)	-
Other income (expenses), net	430,730	293,996	(6,604)
<b>Total Other Expenses, net</b>	<b>(1,113,810)</b>	<b>(3,127,310)</b>	<b>(1,070,422)</b>
<b>(Loss) income before provision for income taxes</b>	<b>(14,561,904)</b>	<b>(11,289,213)</b>	<b>3,695,862</b>
<b>Provision for income taxes</b>	<b>569,974</b>	<b>1,006,905</b>	<b>1,042,474</b>
<b>Net (loss) income from continuing operations</b>	<b>(15,131,878)</b>	<b>(12,296,118)</b>	<b>2,653,388</b>
Net (loss) income from discontinued operations of Gu'an REIT	-	(2,801,131)	1,914,294
Gain From Disposal of Gu'an	2,231,270	-	-
<b>Net (Loss) Income</b>	<b>(12,900,608)</b>	<b>(15,097,249)</b>	<b>4,567,682</b>
Less: net (loss) income attributable to noncontrolling interest	(1,126,845)	(294,635)	87,064
<b>Net (loss) income attributable to ReTo Eco-Solutions, Inc.</b>	<b>\$ (11,773,763)</b>	<b>\$ (14,802,614)</b>	<b>\$ 4,480,618</b>
Net (loss) Income	\$ (12,900,608)	\$ (15,097,249)	\$ 4,567,682
Other Comprehensive (loss) income:			
Foreign currency translation adjustment:	1,923,316	(576,743)	(3,015,577)
<b>Comprehensive (Loss) Income</b>	<b>(10,977,292)</b>	<b>(15,673,992)</b>	<b>1,552,105</b>
Less: comprehensive (loss) income attributable to noncontrolling interest	(1,132,148)	(449,125)	(39,742)
<b>Comprehensive (loss) income attributable to ReTo Eco-Solutions, Inc.</b>	<b>\$ (9,845,144)</b>	<b>\$ (15,224,867)</b>	<b>\$ 1,591,847</b>

**Balance sheet data:**

	As December 31		
	2020	2019	2018
Current assets	\$ 13,279,510	\$ 25,464,247	\$ 29,521,952
Total assets	\$ 57,974,073	\$ 70,795,244	\$ 82,004,922
Current liabilities	\$ 22,994,786	\$ 25,215,769	\$ 20,681,667
Total liabilities	\$ 30,012,252	\$ 32,840,381	\$ 28,824,067
Total equity	\$ 27,961,821	\$ 37,954,863	\$ 53,180,855
Shares outstanding	24,135,000	23,160,000	22,760,000



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## Exchange Rate Information

We conduct our business in China and maintain the financial records of China Operating Companies in RMB, their functional currency. However, we use the U.S. dollar as our reporting currency; therefore, periodic reports made to shareholders will include current period amounts translated into U.S. dollars using the then-current exchange rates. Our financial statements have been translated into U.S. dollars in accordance with Accounting Standards Codification (“ASC”) 830-10, “Foreign Currency Matters.” We have translated our asset and liability accounts using the exchange rate in effect at the balance sheet date. We translated our statements of operations using the average exchange rate for the period. We reported the resulting translation adjustments under other comprehensive income (loss). The consolidated balance sheet amounts, with the exception of equity at December 31, 2020 and 2019 were translated at RMB6.5250 to \$1.000 and RMB 6.9618 to \$1.00, respectively. The equity accounts were stated at their historical rate. The average translation rates applied to consolidated statements of income and comprehensive income and cash flows for the years ended December 31, 2020, 2019 and 2018 were RMB 6.9042, RMB 6.9081 and RMB 6.6090 to \$1.00, respectively.

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

### **B. Capitalization and indebtedness.**

Not applicable for annual reports on Form 20-F.

### **C. Reasons for Offer and use of Proceeds.**

Not applicable for annual reports on Form 20-F.

### **D. Risk Factors.**

## Risks Related to Our Business

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

Labor costs in China have increased with China’s economic development. Rising inflation in China is also putting pressure on wages. Wage costs for our employees form a significant part of our costs. For instance, for the years ended December 31, 2020 and 2019, our compensation and benefit costs for our employees were approximately \$3.4 million and \$3.2 million, respectively. In addition, we are required by Chinese laws and regulations to pay various statutory employee benefits, including pensions, housing funds, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated governmental agencies for the benefit of our employees. We expect that our labor costs, including wages and employee benefits, will continue to increase, particularly as we seek to expand our operations. In addition, the future issuance of equity-based compensation to our professional staff and other employees would also result in additional stock dilution for our shareholders. Unless we are able to pass on these increased labor costs to our customers by increasing prices for our products and projects, our profitability and results of operations may be materially and adversely affected. Furthermore, the Chinese government has promulgated new laws and regulations to enhance labor protections in recent years, such as the Labor Contract Law and the Social Insurance Law. As the interpretation and implementation of these new laws and regulations are still evolving, our employment practice may not at all times be deemed in compliance with the new laws and regulations. If we are subject to penalties or incur significant liabilities in connection with labor disputes or investigation, our business and profitability may be adversely affected.

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

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

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

Our customers generally operate in the construction industry. Therefore, we are subject to general changes in economic conditions impacting this industry segment of the economy. If the construction industry does not grow or if there is a contraction in this industry, demand for our business would decrease. Demand for our business is typically affected by a number of overarching economic factors, including interest rates, environmental laws and regulations, the availability and magnitude of private and governmental investment in infrastructure projects and the health of the overall economy. If there is a decline in economic activity in China or the other markets in which we operate, or there is a protracted slowdown in industries upon which we rely for our sales, demand for our projects and products and our revenue would likewise decrease, which could have a materially adverse effect on our business.

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

Our construction material products, manufacturing equipment and projects depend heavily on the ready availability of various raw materials. The availability of raw materials may decline, and their prices may fluctuate greatly. If our suppliers are unable or unwilling to provide us with raw materials on terms favorable to us, we may be unable to produce certain products, equipment or complete projects. The inability to produce certain products or projects for customers could result in a decrease in profit and damage to our corporate reputation. In the event our raw material costs increase, we may not be able to pass these higher costs on to our customers in full or at all.

***We rely on a limited number of vendors, and the loss of any significant vendor could harm our business, and the loss of any one of such vendors could have a material adverse effect on our business.***

We consider our major vendors to be those vendors that accounted for more than 10% of overall purchases in any given fiscal period. For the years ended December 31, 2020, 2019 and 2018, the Company purchased approximately 43%, 25% and 28% of its raw materials from one major supplier, respectively. We have not entered into long-term contracts with all of our significant vendors and instead rely on individual contracts with such vendors. Although we believe that we can locate replacement vendors readily on the market for prevailing prices, any difficulty in replacing a vendor on terms acceptable to us could negatively affect our company's performance to the extent it results in higher prices or a slower supply chain.

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

We must order materials for our products and projects and build inventory in advance of production. We typically acquire materials through a combination of purchase orders, supplier contracts and open orders, in each case based on projected demand.

As of December 31, 2020, our inventory from continuing operations was \$730,207. Inventory turnover associated with our continuing operations for the fiscal 2020 was 34 days. As our markets are competitive and subject to rapid technology and price changes, there is a risk that we will forecast incorrectly and order or produce incorrect amounts of products or not fully utilize firm purchase commitments. If we were unsuccessful in accurately quantifying appropriate levels of inventory, our business, financial condition and results of operation may be materially and adversely affected.

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

In order to optimize our product manufacturing, we must manage our supply chain for raw materials and delivery of our products. Supply chain fragmentation and local protectionism within China further increase supply chain disruption risks. Local administrative bodies and physical infrastructure built to protect local interests may pose transportation challenges for raw material transportation as well as product delivery. In addition, profitability and volume could be negatively impacted by limitations inherent within the supply chain, including competitive, governmental, legal, natural disasters, and other events that could impact both supply and price. Any of these occurrences could cause significant disruptions to our supply chain, manufacturing capability and distribution system that could adversely impact our ability to produce and deliver products. If we are unsuccessful in maintaining efficient operation of our supply chain, our business, financial condition and results of operation may be materially and adversely affected.

***We do not maintain a reserve for warranty or defective products and installation claims. Our costs could increase if we experience a significant number of claims, which could have a material adverse effect on our business.***

We generally obtain customers' acceptance when we deliver products, equipment or projects. In practice, we allow our customers to reserve approximately 5-20% of the agreed purchase or installation price as a security retention for a period of one or two years after we deliver or implement a solution. We consider this one or two years term to be a warranty period for our products or projects sold. Historically, we have not experienced significant customer complaints concerning our products or projects, and none of our customers have claimed damages for any loss incurred due to quality problems. In addition to our one to two years reserve, China's Product Quality Law generally allows customers two years to seek compensation for damages caused by product quality deficiencies in cases in which a product lacks an expiration period.

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We expect our customer support teams and our quality assurance and manufacturing monitoring procedures to continue to keep claims at a level that does not support a need for a financial reserve. However, if we experience significant increases in claims or customers' failure to pay the final 5-20% of a purchase/installation price as a result of quality concerns, our financial results could be adversely affected.

***We face certain risks in collecting our accounts receivable, the failure to collect could have a material adverse effect on our business.***

At the end of December 31, 2020 and 2019, our net accounts receivable associated with our continuing operations were \$3,422,578 (including accounts receivable from third party customers of \$3,220,504 and accounts receivable from related party customers of approximately \$202,074) and \$11,721,476 (including accounts receivable from third party customers of \$11,252,002 and accounts receivable from related party customers of approximately \$469,474), respectively. These amounts represented 35% of our total revenues from continuing operations in 2020 and 40% of our total revenues from continuing operations in 2019. For the year ended December 31, 2020 our accounts receivable turnover associated with our continuing operations was 284 days, and 161 days for the same period in 2019.

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

***Our return on investment in client projects may be different from our projections.***

Our return on investment in client projects will take some time to materialize. At the initial stages of project investment and construction, the depreciation of newly added materials and fixed assets will negatively affect our operating results. In addition, the projects may be subject to changes in market conditions during the installation and implementation phases. Changes in industry policy, the progress of the projects, project management, raw materials supply, market conditions and other variables may affect the profitability and the time in which we profit on projects, which may be different from our initial forecast, thus affecting the actual return on investment of the projects.

***The sale of our eco-friendly construction materials are subject to geographic market risks, which could adversely affect our revenues and profitability.***

Currently, all of our eco-friendly construction materials are sold in China. Accordingly, we are subject to risks related to the economy of this geographic market. In addition to economic conditions, the geographic concentration suggests that regional specific legislation, taxes and disasters such as earthquakes could disproportionately affect us and our financial performance. A downturn in the demand for eco-friendly construction materials or economic conditions in Hainan Province could result in a material decline in our business, financial condition and results of operation.

***The report of our independent registered public accounting firm on our financial statements for the years ended December 31, 2020 and 2019 includes an explanatory paragraph that expresses substantial doubt about our ability to continue as a going concern, and if our business is unable to continue it is likely investors will lose all of their investment.***

As discussed in Note 3 to the consolidated financial statements to this Annual Report, the Company has suffered significant losses from operations and has a significant decrease in working capital that raises substantial doubt about its ability to continue as a going concern. Our auditor, Friedman LLP, has indicated in their report on the Company's financial statements for the fiscal year ended December 31, 2019 that there is "substantial doubt about our ability to continue as a going concern". A "going concern" opinion could impair our ability to finance our operations through the sale of equity, incurring debt, or other financing alternatives.

Management's plan to alleviate the substantial doubt about our ability to continue as a going concern include working to improve the Company's liquidity and capital sources mainly through cash flow from its operations, renewal of bank borrowings and borrowing from related parties. In order to fully implement its business plan and sustain continued growth, the Company may also seek equity financing from outside investors. At the present time, however, the Company does not have commitments of funds from any potential investors. There can be no assurance that additional financing, if required, would be available on favorable terms or at all and/or that these plans and arrangements will be sufficient to fund the Company's ongoing capital expenditures, working capital, and other requirements. If we are unable to achieve these goals, our business will be jeopardized and we may not be able to continue. If we ceased operations, it is likely that all of our investors will lose their investment.

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

We intend to grow by expanding our business, increasing market penetration of our existing products, developing new products and increasing our targeting of domestic and international markets. However, many obstacles to this expansion exist, including increased competition from similar businesses, our ability to improve our products and product mix to realize the benefits of our research and development efforts, unexpected costs and costs associated with marketing efforts. As such, we cannot assure you that we will be able to successfully overcome these potential challenges and establish our business in additional markets. Our inability to implement this growth strategy successfully may have a negative impact on our growth, future financial condition, and results of operations or cash flows.

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

We own 69 patents (seven of which are owned jointly with Luoyang Water-Conservancy Surveying & Design Co., Ltd. (“Luoyang”), an independent third party), and 8 software copyrights in China covering our construction material products and manufacturing equipment, and we rely on a combination of patent, trademark and trade secret laws and non-disclosure agreements and other methods to protect our intellectual property rights.

The process of seeking patent protection on future patents can be lengthy and expensive, our patent applications may 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.

Implementation of Chinese intellectual property-related laws has historically been lacking, primarily because of ambiguities in Chinese 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.

***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. We face a high risk of being the subject of claims for intellectual property infringement, invalidity or indemnification relating to other parties’ proprietary rights because we sell our products and manufacturing equipment internationally and litigation is becoming more common in China. 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. In addition, the defense of intellectual property suits, including patent infringement suits, and related legal and administrative proceedings can be costly, 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;

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- pay ongoing royalties;
- redesign our branded products; or
- be restricted by injunctions.

Each of these events 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 branded products, which could have a material adverse effect on our financial condition and results of operations.

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

In addition to patents, we rely on confidentiality agreements to protect our technical know-how and other proprietary information. In addition, our officers and each of our main technical and management employees have signed a confidentiality agreement. Nevertheless, there can be no guarantee that an employee or a third party will not make an unauthorized disclosure of our proprietary confidential information. This might happen intentionally or inadvertently. It is possible that a competitor will make use of such information, and that our competitive position will be compromised, in spite of any legal action we might take against persons making such unauthorized disclosures.

***The use of unqualified individual subcontractors may result in substantial liability.***

We, REIT Construction and REIT Eco Engineering sometimes subcontract portions of our projects to third parties. According to Construction Law and Qualification Standard for Labor Subcontracting in Construction Business of China, individual contractors are not in a position to obtain any qualification of labor subcontracting. Accordingly, contracts subcontracted out by REIT Construction and REIT Eco Engineering to individual contractors may be declared void and unenforceable by applicable courts. Article 29 of the Construction Law requires that “the overall contractors and subcontractors shall bear joint responsibilities to project owners for the subcontracted projects”. It is possible that we may subcontract projects to individuals or parties without required qualifications. If the construction completed by unqualified individual subcontractors does not meet required quality standards and an accident occurs, we may jointly bear the consequences pursuant to the Article 67 of the Construction Law. Also, according to Article 54 of the Regulation on the Quality Management of Construction Projects, the liabilities for the consequences could be indemnifying the damages and paying a penalty ranging from 500,000 RMB (approximately \$72,000) up to 1.0 million RMB. (approximately \$144,000).

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

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

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

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

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

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***Outstanding bank loans may reduce our available funds.***

We had approximately \$15.9 million in bank loans outstanding as of December 31, 2020 (including \$6.7 million short-term bank loans, \$2.9 million current portion of long-term bank loans and \$6.3 million long-term bank loans). The loans are held at multiple banks, and all of the debt is guaranteed by third-party guaranty companies and certain company officers. There can be no guarantee that we will be able to pay all amounts when due or 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.

***We guaranteed related party loans, which may subject us to losses should we have to make our commitments under the guaranty, which could have a material adverse effect on our financial condition, results of operations, cash flow and per share trading price of our securities.***

In addition, on March 17, 2017, REIT Changjiang entered into a guarantee agreement to guarantee the payment obligations of the Company's related party, Changjiang Zhongrong Hengde Environmental Protection Co., Ltd., to Changjiang Li Autonomous County Rural Credit Cooperatives. The guaranteed principal creditor's right is approximately \$3.8 million (RMB 25,000,000). The guarantee was still effective as of December 31, 2020. Should we have to make our commitments under this guaranty, it may subject us to losses, which may result in a material adverse effect on our financial condition, results of operations, cash flow and per share trading price of our securities.

***A financial intermediary may have acquired investment funds from investors to invest in our Company's business before reaching a final mutual agreement with us to obtain such investments, which may subject us to on-going or future litigation, which could have a material adverse effect on our financial condition.***

In 2018 a financial intermediary and REIT Xinyi began negotiations towards a potential cooperation where the financial intermediary would introduce potential investors to facilitate investment in REIT Xinyi's business. In December 2018, an investor invested 1,000,000 RMB (approximately \$0.15 million) in REIT Xinyi through this financial intermediary. REIT Xinyi rejected this investment and returned the total investment funds it received to the investor and informed the financial intermediary to cease facilitating investments from other investors. In addition, despite there not being a final mutual agreement between the parties, it appears the financial intermediary may have acquired investment funds in the aggregate amount of 15,450,000 RMB (approximately \$2.15 million) from certain investors, and REIT Xinyi did not receive any funds from these investments.

Mr. Hengfang Li, the Company's CEO has agreed to assume full responsibility for liabilities, if any, and assume the creditor's rights for these claims on behalf of the Company for any legal claims or lawsuits against the Company due to these investments. As of the date of this annual report, REIT Xinyi had been involved in one lawsuit as defendant regarding the above investments with the claim amount of RMB 300,000 (approximately \$44,000), the total amount of which was repaid by Hengfang Li in May 2020. Accordingly, at this time, the Company believes that any ultimate liability resulting from the outcome of such proceedings, if there are any, will not have a material adverse effect on the Company's consolidated financial position or results of operations or liquidity.

However, in the event that Mr. Li personally fails to satisfy any losses related to the investments on our behalf, the Company may face the risk of being sued by the investors and repay related liabilities, which although is remote, could have a material adverse effect on our financial condition.

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

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

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

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

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

Our ability to meet customer delivery schedules for backlog is dependent on a number of factors including sufficient manufacturing plant capacity, adequate supply channel access to raw materials and other inventory required for production, an adequately trained and capable workforce, project engineering expertise for certain large projects and appropriate planning and scheduling of manufacturing resources. Many of the contracts we enter into with our customers require long manufacturing lead times. Failure to deliver in accordance with customer expectations could subject us to contract cancellations and financial penalties, and may result in damage to existing customer relationships and could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that our backlog will result in revenue on a timely basis or at all, or that any cancelled contracts will be replaced.

***Our operations are subject to various hazards that may cause personal injury or property damage and increase our operating costs, and which may exceed the coverage of our insurance.***

There are inherent risks to our operations. Our workers are subject to the usual hazards associated with providing services on construction sites, while our plant personnel are subject to the hazards associated with moving and storing large quantities of heavy raw materials and finished products. Operating hazards can cause personal injury and loss of life, damage to or destruction of property, plant and equipment and environmental damage. Although we conduct training programs designed to reduce these risks, we cannot eliminate these risks. We rely on state mandated social insurance for work-related injuries of our employees. However, any claim that exceeds the scope of our insurance coverage, if successful and of sufficient magnitude, could result in the incurrence of substantial costs and the diversion of resources, which could have a material adverse effect on us. In addition, we do not have any business liability, disruption, litigation or property insurance coverage for our operations. Any uninsured occurrence of loss or damage to property, or litigation or business disruption may also materially and adversely affect our ability to operate.

***We may incur material costs and losses as a result of claims our products do not meet regulatory requirements or contractual specifications.***

Our operations involve providing products that must meet building code or other regulatory requirements and contractual specifications for durability, stress-level capacity, weight-bearing capacity and other characteristics. If we fail or are unable to provide products meeting these requirements and specifications, we may face economic penalties, including price adjustments, rejection of deliveries and/or termination of contracts, and our reputation could be damaged. If a significant product-related claim or claims are made and resolved against us in the future, such resolution may have a material adverse effect on our business, financial condition, results of operations and cash flows.

***Our operations may incur substantial liabilities to comply with environmental laws and regulations.***

Our construction materials manufacturing operations are subject to laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. Our failure to have complied with the applicable laws may result in the assessment of administrative, civil and criminal penalties, the incurrence of investigatory or remedial obligations and the imposition of injunctive relief. Resolution of these matters may require considerable management time and expense. In addition, changes in environmental laws and regulations occur frequently and any changes that result in more stringent or costly manufacturing, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to reach and maintain compliance and may otherwise have a material adverse effect on our industry in general and on our own results of operations, competitive position or financial condition.

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

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

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

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

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

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

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

We may need to obtain additional debt or equity financing to fund future capital expenditures. While we do not anticipate seeking additional financing in the immediate future, any additional equity financing may result in dilution to the holders of our outstanding shares of capital stock. Additional debt financing may put us in situations that would restrict our freedom to operate our business, such as situations 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;



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- 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 guaranty that we will be able to obtain additional financing on terms that are acceptable to us, or any financing at all, and the failure to obtain sufficient financing could adversely affect our business operations.

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

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

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

***Our bank accounts in China are not insured or protected against loss.***

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

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

Our eco-friendly construction materials and projects are primarily used in the construction industry. Our business is in line with China's current focus on environmental protection policies, specifically the 14<sup>th</sup> Five-Year Plan (2021-2025). However, should China alter its environmental policies towards less regulation, we believe demand for our eco-friendly construction materials and equipment will decrease, adversely impacting our results of operations, cash flows and financial position.

## **Risks Relating to Our Corporate Structure**

***We will likely not pay dividends in the foreseeable future.***

We have not previously paid any cash dividends, and we do not anticipate paying any dividends on our common shares in the foreseeable future. We have incurred net loss in 2020 and 2019, we cannot assure that our operations will result in sufficient revenues to enable us to operate at profitable levels or to generate positive cash flows from operating activities. Dividend policy is subject to the discretion of our board of directors and will depend on, among other things, our earnings, financial condition, capital requirements and other factors. If we determine to pay dividends on any of our common shares in the future, we will be dependent, in large part, on receipt of funds from Beijing REIT, REIT Ecological and REIT Yancheng for our cash needs, including the funds necessary to pay dividends and other cash distributions, if any, to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities organized in China is subject to limitations as described herein. Under British Virgin Islands law, we may only pay dividends from surplus (the excess, if any, at the time of the determination of the total assets of our Company over the sum of our liabilities, as shown in our books of account, plus our capital), and we must be solvent before and after the dividend payment in the sense that we will be able to satisfy our liabilities as they become due in the ordinary course of business; and the realizable value of assets of our Company will not be less than the sum of our total liabilities, other than deferred taxes as shown on our books of account, and our capital. If we determine to pay dividends on any of our common shares in the future, as a holding company, we will be dependent on receipt of funds from Beijing REIT, REIT Ecological and REIT Yancheng. See "Dividend Policy."

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

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

The transfer to this reserve must be made before distribution of any dividend to shareholders. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into registered capital, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital. As of December 31, 2020, and December 31, 2019, the accumulated appropriations to statutory reserves amounted to \$2,386,119 and \$2,632,797, respectively.

***Our business may be materially and adversely affected if any of our China Operating Companies declare bankruptcy or become subject to a dissolution or liquidation proceeding.***

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

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

***We may rely on dividends paid by China Operating Companies to satisfy our cash needs.***

We may rely on dividends and other distributions on equity paid by our China Operating Companies for our cash needs, including the funds necessary to pay dividends and other cash distributions, if any, to our shareholders, to service any debt we may incur and to pay our operating expenses. Two loans governing part of the current debts incurred by Beijing REIT and REIT Changjiang have restrictions on their abilities to pay dividends, and any future financing arrangements may impose such restrictions as well. Further, the payment of dividends by entities organized in China is subject to limitations as described herein. Under British Virgin Islands law, we may only pay dividends from surplus (the excess, if any, at the time of the determination of the total assets of our company over the sum of our liabilities, as shown in our books of account, plus our capital), and we must be solvent before and after the dividend payment in the sense that we will be able to satisfy our liabilities as they become due in the ordinary course of business; and the realizable value of assets of our company will not be less than the sum of our total liabilities, other than deferred taxes as shown on our books of account, and our capital. If we determine to pay dividends on any of our common shares in the future, as a holding company, we will be dependent on receipt of funds from Beijing REIT, REIT Ecological and REIT Yancheng. See "Dividend Policy."

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

Pursuant to Company Law of P.R. China (2018 Revision) and Implementing Rules for the Law of the People's Republic of China on Wholly Foreign-owned Enterprises (2014 Revision), Beijing REIT, REIT Ecological and REIT Yancheng are required to allocate a portion of its after-tax profits, to the statutory reserve fund, and in accordance with its Articles of Association, to the staff welfare and bonus funds. No lower than 10% of an enterprise's after tax-profits should be allocated to the statutory reserve fund. When the statutory reserve fund account balance is equal to or greater than 50% of both Beijing REIT, REIT Ecological and REIT Yancheng's registered capital, no further allocation to the statutory reserve fund account is required. According to the Articles of Association of Beijing REIT, REIT Ecological and REIT Yancheng, their board of directors determines the amount contributed to the staff welfare and bonus funds. The staff welfare and bonus fund is used for the collective welfare of the staff of Beijing REIT, REIT Ecological and REIT Yancheng. These reserves represent appropriations of retained earnings determined according to Chinese law.

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

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

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

On August 8, 2006, six Chinese regulatory agencies, including the Ministry of Commerce of the People's Republic of China ("MOFCOM"), jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which was subsequently revised on June 22, 2009 (the New "M&A Rule"). The New M&A Rule contains provisions that require that an offshore special purpose vehicle ("SPV") formed for overseas listing purposes and controlled directly or indirectly by Chinese companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange. On September 21, 2006, the CSRC published Provisions on Indirect Issuance of Securities Overseas by a Domestic Enterprise or Overseas Listing of Its Securities for Trading, which specify documents and materials required to be submitted to the CSRC by a SPV seeking CSRC's approval for overseas listings.

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

- At the time of our equity interest acquisition, as the acquiree, Beijing REIT was not related to or connected with the acquirer, REIT Holdings. Accordingly, we did not need the approval from MOFCOM. In addition, we have received all relevant approvals and certificates required for the acquisition;

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- The CSRC approval under the New M&A Rule only applies to overseas listings of SPVs that have used their existing or newly issued equity interest to acquire existing or newly issued equity interest in Chinese domestic companies, or the SPV-domestic company share swap, due to the fact there has not been any SPV-domestic company share swap in our corporate history, ReTo Eco-Solutions does not constitute a SPV that is required to obtain approval from the CSRC for overseas listing under the New M&A Rule; and
- In spite of the lack of clarity on this issue, the CSRC has not issued any definitive rule or interpretation regarding whether offerings like our initial public offering are subject to the New M&A Rule.

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

***Substantial uncertainties exist with respect to the interpretation and implementation of the framework rules of the PRC Foreign Investment Law, and its application may require further rules to be issued by the Chinese government, which may incur and increase our compliance costs and expenses and accordingly our financial condition and operation will be adversely affected.***

On March 15, 2019, the National People's Congress of China promulgated the Foreign Investment Law of the PRC aiming to replace the major existing laws governing foreign investment in China. The Foreign Investment Law became effective on January 1, 2020. The Foreign Investment Law applies to PRC enterprises established, acquired or otherwise invested wholly or partially by foreign investors in a manner prescribed under applicable PRC laws and regulations. It also governs investment projects and activities in China by foreign investors. Accordingly, as our company qualifies as a "foreign investor" for these purposes, our PRC subsidiaries are subject to the Foreign Investment Law.

Under the Foreign Investment Law, a "negative list" promulgated or approved by the State Council will set forth industries that are prohibited industries and restricted industries. A foreign investor is prohibited to invest in any prohibited industry included therein. If a foreign investor is found to invest in any prohibited industry set forth under the "negative list", such foreign investor may be required to, among other aspects, cease its investment activities, dispose of its equity interests in or assets of the "foreign-invested enterprise" ("FIE") and have its income confiscated. A foreign investor may be permitted to invest in a FIE that is in a restricted industry set forth in the "negative list", provided that relevant conditions are satisfied and certain approvals are acquired from relevant PRC governmental authorities. With respect to industries in which foreign investment is not prohibited or restricted, domestic and foreign investors will be equally treated. On June 23, 2020, the Ministry of Commerce of the PRC (the "MOFCOM") and the National Development and Reform Commission (the "NDRC") jointly issued the latest version of Negative List (Edition 2020). See "Regulations — Regulations relating to Foreign Investment — The Guidance Catalogue of Industries for Foreign Investment". Currently, our business falls within the permitted category. However, we cannot assure you that our current operations or any newly-developed business in the future will still be deemed to be "permitted" in the "negative list", which may be promulgated or be amended from time to time by the MOFCOM and the NDRC.

Our PRC subsidiaries will be characterized as FIEs. Once an entity is determined to be a FIE and its business operations fall within a restricted industry under the "negative list", in order for a foreign investor to invest in the FIE, such entity will be required to obtain entry clearance and approvals from the MOFCOM or its local counterparts and other relevant PRC government agencies. Our main products currently manufactured by us, including eco-friendly construction materials and equipment used for the production of these eco-friendly construction materials, do not fall in the prohibited or restricted industries under "negative list" that is currently effective.

The Foreign Investment Law also requires that the entity form, main organizations and business activities of an FIE established before the enactment of the Foreign Investment Law and in accordance with the Chinese-Foreign Equity Joint Venture Enterprise Law, the Chinese-Foreign Cooperative Joint Venture Enterprise Law or the Wholly Foreign-Owned Enterprise Law comply with the PRC Company Law, the PRC Partnership Law and other laws (as the case might be) and there is a five-year transition period from January 1, 2020 for FIEs to fully comply with such requirements. See "Regulations Relating to Foreign Investment - The Foreign Investment Law."

The relevant business carried out by our PRC subsidiaries and our investment in the PRC subsidiaries currently are not subject to the national security review under applicable PRC laws and regulations. However, if our future business operations or potential mergers and acquisitions we enter into in the PRC are related to material infrastructure or other national security sensitive areas or industries involving certain key technologies, national security review requirements will likely apply and the review result that is in compliance with PRC laws should be definitive. It remains unclear when the specific implementation measures of the Foreign Investment Law will be issued by the State Council. Given the uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law, its application may require further rules to be issued by Chinese government, which may incur and increase our compliance costs and expenses and accordingly our financial condition and operation will be adversely affected.

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## Risks Related to Doing Business in China

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

China passed an Enterprise Income Tax Law (the “EIT Law”) and implementing rules, both of which became effective on January 1, 2008. EIT Law was subsequently amended by the Standing Committee of the National People’s Congress and became effective on February 24, 2017. Under the EIT Law, resident enterprises pay income tax at the rate of 25% for their worldwide income while non-resident enterprises pay 20% for their income generated from China and income generated overseas but are substantially related to the entities established in China by the non-resident enterprises. As far as the definition of resident enterprises, according to the EIT Law, an enterprise established outside of China with “de facto management bodies” within China is considered a “resident enterprise.” The implementing rules of the EIT Law define de facto management as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

On April 22, 2009, the State Administration of Taxation of China issued Circular on Issues Concerning the Identification of Chinese-Controlled Overseas Registered Enterprises as Resident Enterprises with the Actual Standards of Organizational Management, or Circular 82, further interpreting the application of the EIT Law and its implementation to offshore entities controlled by a Chinese enterprise or group. Pursuant to the Circular 82, an enterprise incorporated in an offshore jurisdiction and controlled by a Chinese enterprise or group will be classified as a “resident enterprise” with its “de facto management body” located within China if (i) the place where the senior management and core management departments that are in charge of its daily operations perform their duties is mainly located in China; (ii) its financial and human resources decisions are made by or are subject to approval by persons or bodies in China; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in China; and (iv) at least half of the enterprise’s directors or senior management with voting rights frequently reside in China. A resident enterprise would have to pay a withholding tax at a rate of 10% when paying dividends to its non-PRC stockholders.

Given that ReTo Eco-Solutions does not have a PRC individual or a PRC enterprise or group, but a Hong Kong enterprise as its primary controlling shareholder, we believe Circular 82 will not apply to us. However, Circular 82 did mention that the facts-oriented recognition is more important than format in the case of recognizing “de facto management”. Although we have never been determined by any competent tax authorities to be a “resident enterprise”, and we have not seen any corporations with similar structures to ours to be determined as a “resident enterprise”, whether or not we will be recognized as a “resident enterprise” is subject to the PRC tax authorities’ discretion and their interpretation of the term “de facto management body”.

As for our Hong Kong business, we do not believe that we meet some of the conditions outlined. As trading companies, the key assets and records of REIT Holdings including the resolutions and meeting minutes of our board of directors and the resolutions and meeting minutes of our shareholders, are located and maintained outside the PRC. Accordingly, we believe that REIT holdings should not be treated as a “resident enterprise” for PRC tax purposes if the criteria for “de facto management body” as set forth in Circular 82 were deemed applicable to us. However, as the tax residency 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” as applicable to our offshore entities, we will continue to monitor our tax status.

If the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, under the EIT Law and its implementing rules, dividends paid to us from our PRC subsidiaries would qualify as “tax-exempt income.” Finally, it is possible that future guidance issued with respect to the new “resident enterprise” classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC stockholders and with respect to gains derived by our non-PRC stockholders from transferring our shares.

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

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

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

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

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

***Fluctuations in exchange rates could adversely affect our business and the value of our securities.***

Changes in the value of the RMB against the U.S. dollar, Euro and other foreign currencies are affected by, among other things, changes in China's political and economic conditions. Any significant revaluation of the RMB may have a material adverse effect on our revenues and financial condition, and the value of, and any dividends payable on our shares in U.S. dollar terms. Although we use the United States dollar for financial reporting purposes, all of the transactions effected by the China Operating Companies are denominated in China's currency, the RMB. The value of the RMB fluctuates and is subject to changes in China's political and economic conditions. We do not currently engage in hedging activities to protect against foreign currency risks. Even if we choose to engage in such hedging activities, we may not be able to do so effectively. Future movements in the exchange rate of the RMB could adversely affect our financial condition as we may suffer financial losses when transferring money raised outside of China into the country or paying vendors for services performed outside of China. For example, to the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on RMB amount we would receive from the conversion. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of paying dividends on our common shares or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us. In addition, fluctuations of the RMB against other currencies may increase or decrease the cost of imports and exports, and thus affect the price-competitiveness of our products against products of foreign manufacturers or products relying on foreign inputs.

Since July 2005, the RMB is no longer pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future Chinese authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

We reflect the impact of currency translation adjustments in our financial statements under the heading "Foreign currency translation gain (loss)." For the years ended December 31, 2020, 2019 and 2018, we had a positive adjustment of \$1,923,316, and a negative adjustment of \$576,743 and \$3,015,577 respectively, for foreign currency translations. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by China exchange control regulations that restrict our ability to convert RMB into foreign currencies.

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

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

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

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

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

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

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

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

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

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

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

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

Beijing REIT, REIT Ecological and REIT Yancheng are subject to Chinese rules and regulations on currency conversion. In China, SAFE regulates the conversion of the RMB into foreign currencies. Currently, FIEs are required to apply to SAFE for “Registration of Establishment as FIEs”. Beijing REIT, REIT Ecological and REIT Yancheng are FIEs, with such registration, Beijing REIT, REIT Ecological and REIT Yancheng are allowed to open foreign currency accounts including the “current account” and the “capital account”. Currently, conversion within the scope of the “current account” and general “capital account” can be effected without requiring the approval of SAFE. However, conversion of currency in some restricted “capital account” (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE.

In particular, if Beijing REIT, REIT Ecological or REIT Yancheng borrow foreign currency through loans from ReTo Eco-Solutions or other foreign lenders, these loans must be registered with SAFE. If Beijing REIT, REIT Ecological or REIT Yancheng are financed by means of additional capital contributions, certain Chinese government authorities, including MOFCOM, or the local counterparts of SAFE and MOFCOM, must approve these capital contributions. These restrictions could limit our use of funds raised in our initial public offering, which could have an adverse effect on our business.

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

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



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

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

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

We have received subsidies from some governmental agencies after meeting certain conditions, such as developing certain technologies, which are chosen as annual key research and development, or obtaining certain technological certifications.

Beijing REIT obtained the Hi-Tech Enterprise Certificate and was entitled to a preferential income tax rate of 15% for 2015 and 2016. The 15% tax rate is less than the standard 25% income tax rate in China. In addition, since the products manufactured by REIT Changjiang qualify as eco-friendly construction materials, 10% of its revenue was exempt from income tax in fiscal 2015. The Company did not receive the similar exemption in fiscal 2017. On December 2, 2019 Beijing REIT obtained the Hi-Tech Enterprise Certificate and was entitled to a preferential income tax rate of 15% for the next 3 years. The estimated tax savings as a result of the Company's tax benefits for the years ended December 31, 2020, 2019 and 2018 amounted to \$60,034, \$0 and \$86,898 respectively. The local Chinese government authorities may reduce or eliminate these incentives through new legislation at any time in the future. In the event Beijing REIT is no longer entitled to receive this tax exemption, its applicable tax rate will increase from 15% to up to 25%, the standard business income tax rate in China. In addition, the termination of one-time subsidies for eco-friendly construction materials could increase the burden of manufacturing and selling these materials in the future. The reduction or discontinuation of any of these economic incentives could negatively affect our business and operations.

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***Failure to make adequate contributions to the housing provident fund for some of our employees could adversely affect our financial condition and we may be subject to labor disputes or complaints.***

Pursuant to the Regulations on Management of Housing Provident Fund (the “Regulations on HPF”) which was promulgated by the State Council on April 3, 1999 and was amended on March 24, 2002, and on March 24, 2019 respectively, PRC enterprises must register with relevant Housing Provident Fund (“HPF”) management center, open special HPF accounts at a designated bank and make timely HPF contributions for their employees. In accordance with the Regulations on HPF, if an enterprise fails to register with HPF or to open special HPF accounts for its employees, it can be ordered by the relevant HPF authority to register and open an account within a certain timeframe, furthermore, the enterprise will be liable for a fine of RMB 10,000 to RMB 50,000 if it fails to comply such an order. Further, if an enterprise fails to pay in full or in part its HPF contributions, such enterprise will be ordered by the HPF enforcement authorities to make such contributions, and may be compelled by the people’s court that has jurisdiction over the matter to make such contributions.

The China Operating Companies are subject to the Regulation on HPF. Accordingly, if the China Operating Companies fail to make adequate HPF contributions for their employees, such failure may give rise to a private cause of action (complaints) by such individual(s) against the relevant China Operating Companies. All of the China Operating Companies have registered with relevant HPF authorities in the PRC (except Dingxuan, REIT Ecological, *Horgos Ta-REIT* and *REIT Yancheng* which currently do not have any full-time employees and have not opened an HPF account as of the date of this annual report), but have not made adequate HPF contributions for some of their employees. We estimate the amount of HPF contributions that the applicable China Operating Companies did not make, but should have made for the year ended December 31, 2020 were less than \$20,000. As of the date of this annual report, the Company has not received any notice, demand or order from the competent authorities nor any claims or complaints from current or former employees regarding our non-compliance in this regard. In addition, Mr. Li has executed a indemnity agreement in favor of the China Operating Companies on September 30, 2017, pursuant to which he agreed to indemnify the China Operating Companies in full against any losses and penalties that they may suffer as a result of the non-payment of HPF contributions. To the extent any of the China Operating Companies are required to make such payments in full, such payments may have adverse financial or operational impact on the Company. In addition, the China Operating Companies may be subject to labor disputes or complaint from current or former employees.

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

China’s Labor Contract Law imposes significant liabilities on employers and affects the cost of an employer’s decision to reduce its workforce. Further, it requires certain terminations be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations. The Labor Contract Law also mandates that employers provide social welfare packages to all employees, increasing our labor costs. To the extent competitors from outside China are not affected by such requirements, we could be at a comparative disadvantage.

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

On July 4, 2014, China’s SAFE issued the Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles, or Circular 37, which became effective as of July 4, 2014. According to Circular 37, prior registration with the local SAFE branch is required for Chinese residents to contribute domestic assets or interests to offshore companies, known as SPVs. Moreover, Circular 37 applies retroactively. As a result, Chinese residents who have contributed domestic assets or interests to a SPV, but failed to complete foreign exchange registration of overseas investments as required before July 4, 2014 shall send a letter to SAFE and its branches for explanation. SAFE and its branches shall, under the principle of legality and legitimacy, conduct supplementary registration, and impose administrative punishment on those in violation of the administrative provisions on the foreign exchange pursuant to the law.

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

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***We may be subject to fines and legal sanctions by SAFE or other Chinese government authorities if we or our employees who are Chinese citizens fail to comply with Chinese regulations relating to employee stock options granted by offshore listed companies to Chinese citizens.***

On February 15, 2012, SAFE promulgated the Circular of the State Administration of Foreign Exchange on Issues Concerning the Administration of Foreign Exchange Used for Domestic Individuals' Participation in Equity Incentive Plans of Companies Listed Overseas, or Circular 7. Under Circular 7, Chinese citizens who are granted share options by an offshore listed company are required, through a qualified Chinese agent of the offshore listed company, to register with SAFE and complete certain other procedures, including applications for foreign exchange purchase quotas and opening special bank accounts. We and our Chinese employees who have been granted share options are subject to Circular 7. Failure to comply with these regulations may subject us or our Chinese employees to fines and legal sanctions imposed by SAFE or other Chinese government authorities and may prevent us from further granting options under our share incentive plans to our employees. Such events could adversely affect our business operations.

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

Other than Circular 37, our ability to conduct foreign exchange activities in China may be subject to the interpretation and enforcement of the Implementation Rules of the Administrative Measures for Individual Foreign Exchange promulgated by SAFE in January 2007 (as amended and supplemented, the "Individual Foreign Exchange Rules"). Under the Individual Foreign Exchange Rules, any Chinese individual seeking to make a direct investment overseas or engage in the issuance or trading of negotiable securities or derivatives overseas must make the appropriate registrations in accordance with SAFE provisions. Chinese individuals who fail to make such registrations may be subject to warnings, fines or other liabilities.

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

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

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

We are a company incorporated under the laws of the British Virgin Islands, we conduct substantially most of our operations in China and substantially most of our assets are located in China. In addition, most of our senior executive officers reside within China for a significant portion of the time and most are PRC nationals. As a result, it may be difficult for you to effect service of process upon us or those persons inside mainland China. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors who reside and whose assets are located outside the United States. In addition, there is uncertainty as to whether the courts of the British Virgin Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

According to Article 177 of the PRC Securities Law which became effective in March 2020, the securities regulatory authority of the PRC State Council may collaborate with securities regulatory authorities of other countries or regions in order to monitor and oversee cross border securities activities. Article 177 further provides that overseas securities regulatory authorities are not allowed to carry out investigation and evidence collection directly within the territory of the PRC, and that any Chinese entities and individuals are not allowed to provide documents or materials related to securities business activities to overseas agencies without prior consent of the securities regulatory authority of the PRC State Council and the competent departments of the PRC State Council. Accordingly, in circumstances relating to a direct investigation or collection of evidence conducted by foreign authorities within the territory of the PRC, the foregoing activities are required to be conducted through collaboration with or by obtaining prior consent from Chinese authorities. As of the date hereof, we are not aware of any implementing rules or regulations which have been published regarding application of Article 177.

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

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

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

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

As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

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

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

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

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

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

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

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

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

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

Since 2010, the annual growth rate of the Chinese economy has declined, from approximately 10.3% gross domestic product in 2010 to 6.1% in 2019. This situation has impacted many types of service industries, such as restaurant and tourism, and some manufacturing industries. Our business operations in China rely primarily on the construction industry, which is influenced by economic growth slowdowns. If China's economic growth continues to slow down, then our business could be materially adversely affected if such slow down results in reduced activity by the construction industry.

#### **Risks Associated with Ownership of Our Common Shares**

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

The trading prices for our common shares have fluctuated since we first listed our common shares. Since our common shares became listed on the NASDAQ on November 29, 2017, the trading price of our common shares has ranged from \$12.75 to \$0.55 per common share, and the last reported trading price on May 13, 2021 was \$1.01 per common share. The market price of our common shares may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

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

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

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

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

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

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

***If we are unable to implement and maintain effective internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our 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. The material weaknesses identified relate 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 December 31, 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; and (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 of this report, management has concluded that such controls are ineffective.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Shares eligible for future sale may adversely affect the market price of our common shares, as the future sale of a substantial amount of outstanding common shares in the public marketplace could cause the price of our common shares to decrease.***

The market price of our shares could decline as a result of sales of substantial amounts of our shares in the public market, or the perception that these sales could occur. In addition, these factors could make it more difficult for us to raise funds through future offerings of our common shares.



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

Our officers and/or directors in the aggregate, beneficially own approximately 25% of our outstanding shares. As a result, our employees, officers and directors possess substantial ability to impact our management and affairs and the outcome of matters submitted to shareholders for approval. These shareholders, acting individually or as a group, could exert substantial influence over matters such as electing directors and approving mergers or other business combination transactions. This concentration of ownership and voting power may also discourage, delay or prevent a change in control of our Company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our Company and might reduce the price of our common shares. These actions may be taken even if they are opposed by our other shareholders. See “Principal Stockholders.”

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

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

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

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

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

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

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

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

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

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

As a foreign private issuer, we will also be exempt from the requirements of Regulation FD (Fair Disclosure) which, generally, are meant to ensure that select groups of investors are not privy to specific information about an issuer before other investors. However, we do plan to disclose material information to all investors at this time. In addition, we will still be 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.

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#### Item 4. Information on the Company

##### A. *History and Development of the Company.*

#### Our Corporate Structure

##### *Structural Overview*

We are a manufacturer and distributor of eco-friendly construction materials (aggregates, bricks, pavers and tiles), made from mining waste (iron tailings) and fly-ash, as well as equipment used for the production of these eco-friendly construction materials. In addition, we provide technology solutions for the healthy improvement of ecological environments. We mainly conduct our operations in China through our wholly owned subsidiary, Beijing REIT and its subsidiaries in China. We incorporated ReTo Eco-Solutions on August 7, 2015 in the British Virgin Islands as a holding company to develop business opportunities in China. ReTo Eco-Solutions owns all of the outstanding capital stock of REIT Holdings, our wholly owned Hong Kong subsidiary.

##### *Organization Structure and Purpose*

**RETO Eco-Solutions, Inc.** – ReTo Eco-Solutions is our British Virgin Islands holding company.

**REIT Holdings (China) Limited** – REIT Holdings is our wholly owned Hong Kong subsidiary.

**Beijing REIT Technology Development Co., Ltd.** – Beijing REIT is an operating company in China and a wholly owned subsidiary of REIT Holdings. Its business scope includes research and development and solutions for solid waste (construction waste, fly-ash and mining waste) disposal and reuse.

**Xinyi REIT Ecological Technology Co., Ltd.** – REIT Ecological was a wholly owned subsidiary of REIT Holdings, its business scope included research and development and solutions for solid wastes. REIT Ecological was deregistered on March 27, 2019 due to lack of business activity.

**REIT Technology Development (America), Inc.** – REIT US is a company incorporated in the United States and a wholly owned subsidiary of Beijing REIT. Its business scope includes customer relationship management with the Company's North American customers, marketing in North America and maintaining relationships with the Company's partners, such as AGS.

**Beijing REIT Ecological Engineering Technology Co., Ltd.** – REIT Eco Engineering is an operating company in China and a wholly owned subsidiary of Beijing REIT. Its business scope includes the development and construction of municipal eco-friendly sponge city projects.

**Gu'an REIT Machinery Manufacturing Co., Ltd.** – Gu'an REIT was an operating company in China and a wholly owned subsidiary of Beijing REIT. Its business scope included the development, manufacture and distribution of specialized equipment to manufacture construction materials. Beijing REIT sold all the equity interests it owned in Gu'an REIT to Hebei Huishitong Technology Co., Ltd. on January 17, 2020.

**Langfang Ruirong Mechanical and Electrical Equipment Co., Ltd.** – Ruirong is an operating company in China and a wholly owned subsidiary of Beijing REIT. Its business scope includes manufacturing assembly parts used in specialized equipment to manufacture construction materials.

**REIT Mingsheng Environment Protection Construction Materials (Changjiang) Co., Ltd.** – REIT Changjiang is an operating company in China and is owned 84.32% by Beijing REIT and 15.68% by REIT Holdings. Its business scope includes hauling and processing construction and mining waste, with which it produces eco-friendly building products (aggregates, bricks, pavers and tiles) for environmental-friendly uses.

**Nanjing Dingxuan Environment Protection Technology Development Co., Ltd.** – Dingxuan is an operating company in China and a wholly owned subsidiary of Beijing REIT. Its business scope includes technical support and consulting services for environmental protection projects.

**Hainan REIT Construction Project Co., Ltd.** – REIT Construction is an operating company in China and wholly owned subsidiary of REIT Changjiang. Its business scope includes the development and construction of municipal eco-friendly sponge city projects.

**Horgos Ta-REIT Environment Technology Co., Ltd.** – Horgos Ta-REIT was an operating company in China and a wholly owned subsidiary of REIT Eco Engineering. Its business scope included research, consulting and promotion services of environmental technology, and environmental project design and services. Horgos Ta-REIT was deregistered on May 15, 2019 due to lack of business activity.

**REIT Xinyi New Material Co., Ltd.** - REIT Xinyi is an operating company in China and a 70% owned subsidiary of Beijing REIT. Its business scope will include the manufacture of specialized equipment to produce recycled building products (aggregate, bricks, pavers and tiles) for eco-friendly building.

**REIT Q GREEN Machines Private Limited** – REIT India is an operating company in India and a 51% owned subsidiary of Beijing REIT. We expect to expand our business in the Indian market through this joint venture with Q Green Techon Private Limited, an Indian Company (“Q Green”). Its business scope will include the manufacture of specialized equipment to produce recycled building products (aggregate and bricks) for eco-friendly building.

**REIT Ecological Technology Co., Ltd.** - REIT Yancheng is an operating company in China and a wholly owned subsidiary of REIT Holdings. Its business scope includes the development, manufacture and distribution of specialized equipment to manufacture construction materials.

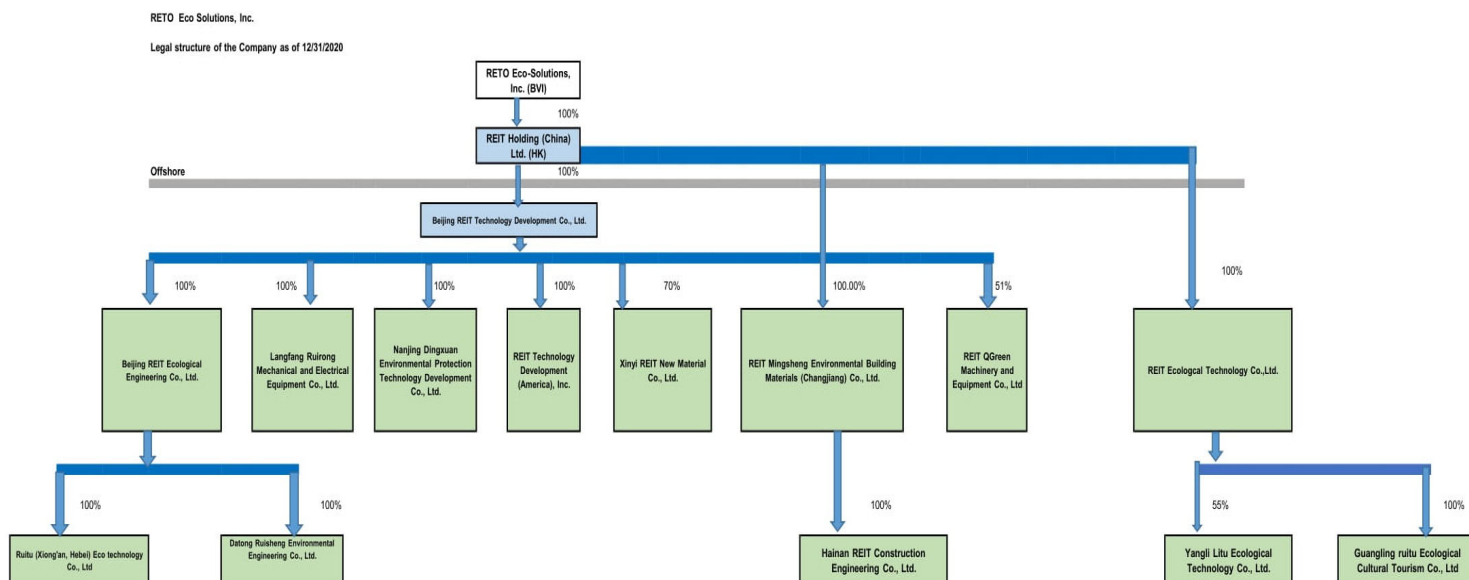
**Lingqiu REIT Dongtian Ecological Technology Co., Ltd.** - REIT Lingqiu is an operating company in China and a 51% owned subsidiary of REIT Eco Engineering. Its business scope included the ecological restoration and comprehensive utilization of solid wastes. REIT Eco Engineering sold its 51% equity interest in REIT Lingqiu to Pengqing Zhi on November 4, 2019.

**Datong Ruisheng Environment Protection Engineering Co., Ltd.** – Datong Ruisheng is an operating company in China and a wholly owned subsidiary of REIT Eco Engineering. Its business scope includes ecological restoration and management.

**Yunnan Litu Technology Development Co., Ltd.** – Yunnan Litu was an operating company in China and a 55% owned subsidiary of REIT Yancheng. Its business scope included R&D and sales of eco-friendly products, equipment, and new eco-friendly materials; remediation of the environment, soil, urban environment, and water pollution. On July 13, 2020, REIT Yancheng has sold its 55% equity interest in Yunnan Litu to Dali Zhongrong Ruitu Environmental Protection Engineering Co., Ltd., Jiangsu Xinchun Biological Technology Co., Ltd., and Yonglan Li.

**Yangbi Litu Ecological Technology Co., Ltd.** – Yangbi Litu is an operating company in China, with 55% of its equity interest owned by REIT Yancheng and 45% of its equity interest owned by Yunnan Litu. Its business scope includes R&D, manufacture and sales of environmental protection products, equipment and new materials; comprehensive utilization of solid waste; environmental restoration and treatment; mine ecological restoration and treatment; tailings restoration and treatment; soil restoration and treatment; urban environment treatment; and water pollution treatment.

### Corporate Organizational Chart



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### ***Corporate History***

ReTo Eco-Solutions is a limited liability company established under the laws of the British Virgin Islands on August 7, 2015 as a holding company to develop business opportunities in the People's Republic of China.

On November 29, 2017, the Company completed its initial public offering ("IPO") of 3,220,000 shares of its common stock at a public offering price of \$5.00 per share. In connection with the offering, the Company's common stock began trading on the NASDAQ Capital Market beginning on November 29, 2017 under the symbol "RETO".

RETO owns 100% equity interest of REIT Holdings, a limited liability company established in Hong Kong. Beijing REIT was established on May 12, 1999 under the laws of PRC. Over the years, Beijing REIT has established five other subsidiaries consisting of: Gu'an REIT, which was incorporated on May 12, 2008; REIT Eco Engineering, which was incorporated on April 24, 2014; Ruirong, which was incorporated on May 12, 2014; Dingxuan, which was incorporated on October 17, 2014; and REIT US, which was incorporated on February 27, 2014.

On February 7, 2016, Beijing REIT and its individual original shareholders entered into an equity transfer agreement, pursuant to which these shareholders agreed to transfer all of their ownership interests in Beijing REIT with a carrying value of RMB 24 million (or \$3,466,260) to REIT Holdings. After this equity transfer, Beijing REIT became a Wholly Foreign-Owned Enterprise ("WFOE") and amended the registration with the State Administration for Industry and Commerce ("SAIC") on March 21, 2016.

REIT Changjiang was incorporated in Hainan Province, China, on November 22, 2011 with the original registered capital of RMB 100 million (approximately \$16 million). REIT Changjiang is engaged in hauling and processing construction and mining waste, with which it produces recycled aggregates and bricks for environmental-friendly uses. REIT Changjiang has been our wholly-owned subsidiary since December 31, 2017.

On June 1, 2015, REIT Construction was incorporated as a wholly owned subsidiary of REIT Changjiang.

On July 15, 2015, Beijing REIT established a new subsidiary, REIT Xinyi wherein Beijing REIT owns 70% equity interest, with the remaining 30% owned by a noncontrolling shareholder.

In February 2016, Beijing REIT established a joint venture, REIT India, together with an Indian company Q Green Techcon Private Limited ("Q Green"). Beijing REIT owns 51% equity interest of REIT India.

On October 22, 2018, REIT Yancheng was incorporated as a wholly owned subsidiary of REIT Holdings.

On August 29, 2019, Datong Ruisheng was incorporated as a wholly owned subsidiary of Beijing REIT. Datong Ruisheng will be engaged in the potential ecological restoration projects in Datong, Shanxi Province.

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On November 11, 2019, Yangbi Litu was jointly established by REIT Eco Engineering and Yunnan Litu. REIT Eco Engineering owned a 55% of the ownership interest in Yangbi Litu, with the remaining 45% equity interest owned by Yunnan Litu. Because the Company's ownership interest in Yunnan Litu was 55%, the Company held an aggregate 79.75% equity interest in Yangbi Litu, directly and indirectly. Yangbi Litu will be engaged in providing services in comprehensive ecological restoration and sales of environmentally friendly equipment and new materials. On July 13, 2020, REIT Eco Engineering transferred its 55% equity interest in Yunnan Litu to a third-party individual and two third-party companies for a nominal price. As a result, the Company's equity ownership interest in Yangbi Litu decreased from 79.75% to 55%.

On January 2, 2020, Beijing REIT signed a share transfer agreement with third party, Hebei Huishitong Technology Inc. ("Huishitong"), to sell 100% of its ownership interest in Gu'an REIT to Huishitong for total consideration of RMB 39.9 million (approximately \$5.7 million). As of December 31, 2019, the Company received RMB 9.7 million (approximately \$1.5 million) from Huishitong as an acquisition deposit. In 2020, the Company received an additional RMB 26.6 million (approximately \$4.1 million). Pursuant to the supplemental share transfer agreement, Huishitong shall make the remaining payment of RMB 3.6 million (approximately \$0.6 million) to the Company before June 30, 2021.

On July 13, 2020, ReTo transferred its 55% equity interests in Yunnan Litu to third parties for a nominal price given the inactivity of Yunnan Litu's business operations since its inception and ReTo's ongoing focus on its own organic business growth.

On September 7, 2020, Beijing REIT entered into a share transfer agreement with the original shareholder of Shexian Ruibo for the acquisition of 41.67% of the equity interests in Shexian Ruibo for a total consideration of \$3.6 million (RMB 25 million), including a cash payment of \$2.7 million (RMB 18.5 million) and non-cash contribution of six patents valued at \$0.9 million (RMB 6.5 million). Beijing REIT made the cash payment of \$2.7 million (RMB 18.5 million) on October 20, 2020 and the six patents had been transferred to Shexian Ruibo prior to September 15, 2020.

On January 29, 2021, the Company announced that it received State-backed funding with the launch of its second high-visibility Beijing Winter Olympics Competition Zone project. The latest project launch follows ReTo's successful August 2020 launch of a state-of-the-art wastewater treatment solution, as part of the Yanqing-to-Chongli Expressway, connecting the two competition zones for the 2022 Beijing Winter Olympics in the Yanqing district of Beijing and the Chongli district of Zhangjiakou.

On March 1, 2021, the Company entered into a securities purchase agreement with an accredited investor to place a Convertible Debenture with a maturity date of twelve months after the issuance thereof in the aggregate principal amount of up to \$2,300,000, provided that in case of an event of default, the Debenture may become at the Debenture Holder's election immediately due and payable. In addition, the Company paid to an affiliate of the Debenture Holder a fee equal to 3.5% of the amount of the Debenture and a one-time due diligence and structuring fee of \$10,000 at the closing.

The principal executive offices of our main operations are located at Building X-702, 60 Anli Road, Chaoyang District, Beijing, People's Republic of China 100101. Our telephone number at this address is (+86) 10-64827328. Our registered office in the British Virgin Islands is at the offices of NovaSage Chambers, P.O. Box 4389, Road Town, Tortola, British Virgin Islands, British Virgin Islands. Our agent for service of process in the United States is Vcorp Agent Services, Inc. located at 25 Robert Pitt Dr., Suite 204, Monsey, New York 10952. Our corporate website is [www.retoeco.com](http://www.retoeco.com).

## **B. Business Overview.**

### **Business Overview**

We are a manufacturer and distributor of eco-friendly construction materials (aggregates, bricks, pavers and tiles), made from mining waste (iron tailings) and fly-ash, as well as equipment used for the production of these eco-friendly construction materials. In addition, we provide consultation, design, project implementation and construction of urban ecological environments. We also provide parts, engineering support, consulting, technical advice and service, and other project-related solutions for our manufacturing equipment and environmental protection projects.

We believe our products are eco-friendly, as they contain approximately 70% of reclaimed fly-ash and iron tailings in place of traditional cement. The use of reclaimed fly-ash and iron tailings assists in the protection of the environment by saving space in landfills and fly-ash ponds used for the disposal of these materials, and assisting in the remediation and reclamation of abandoned or closed mining sites. In addition, our eco-friendly construction materials consume less energy during manufacturing than other traditional building materials. We believe our eco-friendly construction materials, with their characteristics, including superior water permeability, and competitive prices, are in greater demand than traditional materials as governments and others increase their focus on reducing the environmental impact of their activities.

Presently, our clients are located throughout mainland China, and internationally in Canada, the United States, Mongolia, the Middle East, India, North Africa and Brazil. We seek to establish long-term relationships with our clients by producing and delivering high-quality products and equipment and then providing technical support and consulting after equipment is delivered and projects are completed. We engage in marketing and sales through integrated marketing, services marketing and Internet marketing. We are actively pursuing additional markets for our products, equipment and projects, internationally in the Philippines, Laos, Morocco, Tunisia, Cuba, Kenya, Maldives, Argentina, Mexico and Malaysia and in additional provinces of China.

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Beijing REIT was founded in 1999 by our Chief Executive Officer, Hengfang Li. Mr. Li has approximately 20 years of experience in the construction materials and construction materials manufacturing equipment industries. Our principal office is located in Beijing, China. As of May 13 2021, we employed 132 people on a full-time basis. We have 19 employees in management, 24 employees in sales and marketing, 15 employees in research and development, 47 employees in manufacturing and installation and 27 employees in administration.

We are able to provide a full spectrum of products and services, from producing eco-friendly construction materials and manufacturing equipment used to produce construction materials, to project installation. We utilize our research and development efforts to differentiate us from our competitors. For example, we released our first fully automatic block production line in 1999, and have made advances in our technology, such as intelligent automatic systems, which allows us to access our customers' equipment remotely to troubleshoot problems. Some of our competitors do not have automatic production lines.

Due to China's recent emphasis on environmental protection, we believe there is a unique opportunity to grow our Company, which we expect will be driven by demand for our eco-friendly construction materials, equipment used to produce these materials and project construction expertise. We believe our technological know-how, production capacity, reputation and services offered will enable us to seize this opportunity.

We have received several industry awards and been asked to participate in several industry activities. Notable awards and activities include:

- Beijing REIT's fully automatic solid waste disposal production line became recommended equipment of Liaoning Provincial Wall Material Industry Association in 2007;
- Beijing REIT's brick production equipment was appraised as "China Famous Brand" by China Construction and Material Industrial Mechanic Standards Committee in 2007;
- Beijing REIT's concrete brick equipment was authenticated by the European Union CE (European conformity);
- REIT Holdings became a member of the China Resource Reuse Association Wall Material Innovation Committee in 2010;
- Beijing REIT was recognized as a National High-Tech Enterprise and became a "Gazelle Enterprise" in Beijing Zhongguancun Technology Park;
- Beijing REIT was recognized as a National High-Tech Enterprise in 2011;
- Beijing REIT was awarded the "Most Valuable Brand Award" by China Building Materials and Mechanic Industry Association in 2011;
- Beijing REIT was appraised as "AAAA Enterprise" by the Electric Mechanics Association in 2012;
- Beijing REIT became a member of China Association of Urban Environmental Sanitation in 2013; and
- ISO 9001:2000 Authentication (certification based upon quality and consistency).

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In addition, our Chief Executive Officer, Hengfang Li, was named one of the “One Hundred Outstanding People of China” in 2005 by China Celebrity Association. Mr. Li was recognized as one of the “Influential People of Fly-Ash Industry” in 2006 by fenmeihui.org. Mr. Li was awarded as “Leader of Building Materials and Machinery Enterprises of the National 11<sup>th</sup> Five-Year Plan” in 2011 by China Building Material Machinery Association. In addition, Mr. Li and our chief technology officer, Mr. Zhizhong Hu were recognized as “Advanced People of National Reuse Technology” in 2011 by China Association of Circular Economy. We believe our industry awards, reflect widespread recognition of our stature and success in our industry as well as the quality of our service and products.

## **Industry and Market Background**

### ***Construction Market and Opportunity***

China is the world’s largest construction market, and its construction market is expected to continue to grow for the near future, despite economic growth slowing in China. Further, while China’s construction industry only grew around 4.5% in 2018, China is expected to maintain its position as the world’s largest construction market for the near future and its share of the global construction market is expected to reach 26% by 2025. This growth results in large part from the continued increased urbanization in China and its National New-type Urbanization Plan, which envisions 60% of China’s population living in cities by 2020. This urbanization trend is a key factor in the Chinese government’s emphasis on green building to conserve resources. Focusing on buildings is a key element of its national strategy. We believe our eco-friendly construction materials will be in greater demand than traditional materials as the Chinese construction market continues to grow and the Chinese government increases its focus on reducing the environmental impact of building activities.

### ***Sponge Cities***

Despite the recent slowing of the growth of China’s construction industry, we believe there is a significant market opportunity to expand our business due to, among other things, China’s recent environmental initiatives.

In summer 2020, more than 27 provinces in China were affected by flooding. The drainage system in China wasn’t built for extreme weather conditions. Flooding is expected to increase in the future with cities growing larger and climate change causing more extreme weather. One solution is to retrofit existing drainage systems with larger pipes and more efficient systems. However, this is the most expensive and disruptive solution to the problem. To help combat this problem with a quicker, less expensive and less disruptive solution, Chinese scientists and politicians have proposed increased use of “sponge cities” or features of sponge cities. A sponge city is an urban environment where rain is captured, controlled and reused, rather than funneling the water away. In China, a “sponge city” refers to the “sustainable concept of city including flood control and water conservation,” according to the Opinions of the General Office of the State Council. The recycled water can be used for such purposes as refilling aquifers and for irrigation. In some instances, the recycled water can be used for drinking or flushing toilets when properly treated. Sponge cities will also help combat China’s water scarcity problem. About half of China’s 657 cities are considered water scarce or severely water scarce by UN measures.



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In March 2021, China announced its 14<sup>th</sup> Five-Year Plan (2021-2025), which, among other matters, attempts to improve the flood-resistant infrastructure among Chinese cities and further expanding the concept of sponge city, and take comprehensive and systematic measures on restoring natural wetland and water preservation system. China's five-year plans are blueprints containing the country's social, economic, and political goals. They encompass and intertwine with existing policies, regional plans, and strategic initiatives. A five-year plan signals the Chinese government's vision for future reforms and communicates this to other parts of the bureaucracy, industry participants and Chinese citizens. It is a living document that will go through constant revision over the next five years. The 14<sup>th</sup> Five Year Plan continues to highlighted water conservation as its top priority in the nation's infrastructure network and emphasized water resource management, water ecology remediation and environmental water protection.

As of 2018, the Chinese government had chosen 30 cities across the country to become pilot sponge cities. The government has allocate each sponge city between 400 to 600 million RMB (approximately \$85 million to \$128 million) to construct ponds, filtration pools and wetlands, as well as to build permeable roads and public spaces that enable stormwater to soak into the ground.

We have worked on several notable sponge city projects. Among them, we acted as one of the general contractors for the construction of a sponge-city project in Changjiang County, Hainan Province that was constructed using our eco-friendly construction materials. In addition, we acted as a one of the consultants for the construction of another sponge project in Haikou City, Hainan Province. We believe that we will continue to be involved in sponge city construction and that the demand for sponge city construction will continue to be strong. As such, we expect that sponge city construction will drive the demand for our eco-friendly construction materials and our equipment that is used to manufacture these materials.

## Our Competitive Strengths

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

**Eco-friendly products.** Unlike many of our competitors, who still use traditional materials, we use reclaimed fly-ash and iron tailings in our construction materials production. In doing so, we help reduce environmental waste. In addition, our equipment used to produce construction materials can recycle disposed building materials (old bricks and concrete) to produce construction materials.

**Effective operational management.** The consistent quality of our products and manufacturing equipment is achievable only through effective management in all aspects of our operations, from purchasing to production and sales. In every step, we have fully trained, experienced and skilled employees that are working in concert to ensure the quality of our construction materials and manufacturing equipment. In addition, we have a trained management staff who have adopted our corporate culture and understand our business strategy.

**Focus on technology and research and development.** We have developed key techniques and skills in the production of various types of construction materials manufacturing equipment. We own 69 patents (ten of which are owned jointly with Luoyang), including 21 design patents, 13 utility model patents and 5 invention patents. In addition, we have 8 software copyrights. We were recognized as a National High-Tech Enterprise in 2011, which was issued by four authorized departments (Beijing Municipal Bureau of Finance, State Tax Bureau of Beijing, Beijing Municipal Bureau of Local Tax and Beijing Municipal Committee of Science and Technology). In order to obtain a High-Tech Enterprise certification, companies are required to own the proprietary IP rights of the core technology used in their products and services in China. We are committed to researching and developing new construction materials, and to the design and manufacturing of the equipment used to produce these materials.

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**Production Advantages.** Our construction materials manufacturing plant is located in close proximity to raw material sources that are used in the manufacturing process. The plant is located in Changjiang County in Hainan Province and is less than 15 kilometers from an iron ore mine (iron tailings), less than 8 kilometers from a river sand mine and less than 2 kilometers from a granite mine. We use all of these materials in the manufacturing process. Accordingly, we have an abundant supply of raw materials and believe the cost of these raw materials is lower than the costs for the same materials paid by our competitors.

**We provide a full range of eco-friendly project solutions and are not limited to the manufacture of eco-friendly construction materials or manufacturing equipment.** We are able to provide consultation, design and implementation of sponge-city projects for customers, in addition to manufacturing eco-friendly construction materials and equipment. This one-stop solution allows us to capture revenue from all stages of sponge-city projects. In addition, the ability to provide total solutions allows us to capture more types of customers, such as municipalities and governments in addition to businesses.

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

## Our Strategies

Our objective is to become the leading provider of eco-friendly construction materials and equipment. To achieve this goal, we are pursuing the following strategies:

**Market Opportunity.** China's 14th Five-Year Plan (2021-2025) promotes a cleaner and greener economy, with strong commitments to environmental management and protection, clean energy and emissions controls, ecological protection and security, and the development of green industries. This demonstrates a clear focus on charting a sustainable course for the economy in the long-term. The 14th Five-Year Plan offers opportunities for the private sector to support China's environmental goals of water resource management, water ecology remediation and environmental protection of water, such as through the construction of sponge cities and the use of eco-friendly construction materials. Presently, we are able to serve all facets of sponge city construction through our construction materials that are used in construction, our equipment that can produce the construction materials and our general contracting expertise.

**Expand our remediation projects in mining regions.** We believe there are thousands of former mining locations in China that need to be remediated and reclaimed. Abandoned ore mines contain tailings and abandoned or closed mines are normally associated with environmental concerns such as contaminated water and soil. As part of the remediation and reclamation process we are able to assist mining companies with the disposal of tailings, and municipalities creating viable villages in former mining areas. For example, in 2015, we completed a sponge city project in Hainan Province where a village located in a former mining area was built with our eco-friendly construction materials made from iron tailings. We will continue to focus on using iron tailings in our eco-friendly construction materials and seek reclamation projects in former mining areas.

**Continue to develop new products.** We are committed to researching and developing new products for unique customer needs. We believe scientific and technological innovations will help our Company achieve its long-term strategic objectives. For example, as a result of collaboration with the Louisiana Institute of Technology, we have developed a special corrosion-resistant concrete product using high volume fly-ash, with the product passing a mid-stage test that involved over forty different fly-ash production formulas. The traditional formula of construction materials made from fly-ash contains approximately 40% fly-ash, whereas the formula we developed was tested by Alchemy Geopolymer Solutions, LLC ("AGS") to contain 80% fly-ash in the product makeup. The use of fly-ash in our eco-friendly construction materials reduces our raw material consumption and lowers our costs because we can use fly-ash instead of more expensive cement in our production process.

**We intend to increase our revenue and market share by expanding our business network internationally.** In order to expand our international market, we plan to add four to five distributors in South America and the Middle East. We also plan to participate in targeted international marketing events, such as seminars, workshops, and trade shows, where we can meet potential customers, promote our products and deepen our network to further expand our sales.

**Pursue Strategic Acquisitions.** We intend to continue to pursue expansion opportunities in existing and new markets, as well as in core and adjacent categories through strategic acquisitions. Specifically, we are seeking to acquire construction material or construction material manufacturing equipment companies in areas of China with more established economies. We believe the demand for eco-friendly construction materials and manufacturing equipment used to produce these materials are and will continue to be in greater demand in these established economies.

## Our Products

### *Eco-Friendly Construction Materials*

We produce eco-friendly construction materials (aggregates, bricks, pavers and tiles) through our subsidiary, REIT Mingsheng Environment Protection Construction Materials (Changjiang) Co., Ltd. ("REIT Changjiang"), which operates our plant in Changjiang County, Hainan Province. We refer to our construction materials as eco-friendly because we produce them from reclaimed fly-ash and iron mine tailings. When power plants use coal to generate electricity, fly-ash is the lightweight and powdery residue from the coal combustion process. Fly-ash is typically disposed of in landfills and ash ponds, although some may be released directly into the atmosphere. With ever-rising energy demand fueled by China's economic growth, power plants are generating increasing amounts of fly-ash that consumes valuable landfill and ash pond space. Tailings are the materials left over after the process of separating the valuable fraction from the worthless fraction of an ore. Iron ore tailings generally consist of hard rock and sand. Waste rock and tailings constitute the largest (by volume) industrial solid waste generated in the mining process. By recycling fly-ash and iron tailings, we believe that our construction materials manufacturing process is a viable and environmentally friendly solution to disposal problems associated with these materials.

Traditional bricks in China consist primarily of clay, which is mixed with water and silt, pressed into a mold for shaping, then fired in a kiln, or furnace. We use reclaimed fly-ash and iron tailings primarily as a substitute for clay. Through vibration technology, with these raw materials inputted, the finished products can come out with different shape and types. Since the whole production is cured without fire, this process has the benefits of less space required for production and less pollution generated to the environment. We believe fly-ash and iron tailings reduce both the density and heat conductivity of our construction materials without sacrificing their durability and strength. Our construction materials' density and strength meet or exceed China National standards. In addition, because we use fly-ash and iron tailings in the manufacturing process, we believe our construction materials are consistent with China's recent environmental protection policies, such as energy conservation included in the 2016 China's 14th Five-Year Plan (2021-2025).

In addition to fly-ash and iron tailings, our construction materials contain river sand and granite. Our eco-friendly construction materials are produced on a fully automatic production line based upon German technology.

Samples of our eco-friendly construction materials include the following:

**Ground works materials.** Essential materials for sponge cities to assist in water absorption, flood control and water retention. These construction materials can be used for urban roads, pedestrian streets and sidewalks, city squares, landmarks, parking lots, and docks.



**Landscape retaining materials.** These construction materials are mainly used for gardens, roads, bridges, city squares, retaining walls and slope construction.



**Hydraulic engineering materials.** Construction material for sponge city construction, they can be used for hydraulic ecological projects such as slope protection and river transformation.



**Wall materials.** These construction materials are used for insulation, decoration, and for building walls.



### *Eco-friendly Construction Materials Manufacturing Equipment<sup>1</sup>*

In 2019, we produced manufacturing equipment used to create eco-friendly construction materials. We have sold equipment to customers in China, South Asia, North America, the Middle East, North Africa and Southeast Asia. The equipment consists of large-scale fully automated production equipment with hydraulic integration. The equipment can be used to produce various types of eco-friendly construction materials that can be used for a variety of projects such as ground works, hydraulic engineering, landscape retention and wall projects.



*Pictured –Fully Automatic Block Production Line*

Samples of our equipment used to produce construction materials include the following:

#### *REIT-Classic RT9A, RT9B, RT15A, RT15B*

These are fully automated block production lines and can be universally used for the manufacture of bricks, tiles, pavers with and without face mix, curbstones, hollow blocks and similar construction materials.

#### *Horizontal Pull Holes Device*

Horizontal Pull Holes Device is used to produce interlocking bricks, water conservancy blocks and slope protection blocks.

#### *REIT-I Concrete Block Splitter*

Synchronized concrete block cutting machine with four blades. The blades are guided by ultra-wear resistant guide leads and driven by a large bore hydraulic drive, which lowers the operating pressure of the hydraulic unit and increases the splitting force.

#### *REIT Foam Insert Device*

This device is used to insert a foam plate into the mold and produce thermal insulation blocks.

### **Our Projects**

In 2014, we entered into the field of urban ecological construction (sponge city construction) and established REIT Eco Engineering and REIT Construction for this purpose. We act as general contractor for the construction of sponge cities and are responsible for the planning, construction and design of such cities. We subcontract with architects and subcontractors in order to complete the projects. We also act as a consultant for sponge city construction and incorporated Dingxuan for this purpose.

<sup>1</sup> In 2020 the Company terminated the equipment manufacturing business under Gu'an REIT, and may outsource or purchase from third-party suppliers to fulfil future sales orders for manufacturing equipment.



*Changjiang County, Hainan Province Sponge City*

We were the general contractor for a sponge city project where an entire village was relocated and constructed in a former mining area. The project took 16 months to complete resulting in revenue of approximately RMB 14 million (\$2.2 million) for us. We made all construction materials out of recycled iron tailings. A total of 86 single-family homes were built with a total construction area of 9,400 square meters (101,000 square feet). An estimated 1,810,000 pieces of bricks were used for walls, 90,000 roof tiles, and 4,200 square meters (approximately 45,000 square feet) of ground was covered with our construction materials. The completed project has won recognitions at various government levels in Hainan Province, and has been designated as a demonstration or model project for promotion of sponge city construction.



*Haikou City, Hainan Province Sponge City*

We acted as a consultant for a sponge city project in Haikou City, Hainan Province. We also paved 50,000 square meters for this project. To assist with the nationwide efforts to promote pilot cities in sponge city construction, we will collaborate with international institutions in sponge city construction such as Jude Technology Corporation located in Germany. By gradually increasing our efforts, and expanding the scale in the planning, design and construction of sponge cities, we aim to become a key enterprise in sponge city construction.



## Customers

Our eco-friendly construction materials are only sold in China. Sales of construction materials accounted for \$3.1 million, \$15.3 million and \$18.8 million of our total revenues for the years ended December 31, 2020, 2019 and 2018, respectively. We have international customers located in Asia, India, the Middle East, North Africa and North America for our manufacturing equipment. The following is a summary of our total revenues from our continuing operations by geographic market for each of the last three years for our manufacturing equipment used to produce construction materials.

Region	2020	2019	2018
Middle East	\$ -	\$ 240,375	\$ 1,874
India	2,120,381	401,768	348,924
Pakistan	-	64,723	90,500
China	3,603,587	13,342,185	7,594,516
North Africa	-	-	1,139,440
Maldives	804,112	-	3,077
Total	\$ 6,528,080	\$ 14,049,051	\$ 9,178,331

As of December 31, 2020 and 2019, no single customer accounts for more than 10% of the Company's consolidated accounts receivable.

## Sales and Marketing

We are increasing our marketing and sales efforts, including a directed focus on online marketing. Online marketing allows us to efficiently educate prospective customers about the products and services we have to offer and assists us in expanding the reach of our market, both globally and internationally. In addition, we are expanding our presence in the markets we serve. In India, for example, in order to reduce costs, improve customer service quality and expand sales, we have established local assembly companies.

In order to expand our international market, we plan to add four to five distributors in South America and the Middle East. We also plan to participate in targeted international marketing events, such as seminars and workshops, and trade shows where we can meet customers, promote our products and deepen our network to further expand our sales.

Within our domestic markets, specifically Hainan, we have increased brand recognition by focusing on governmental projects and large-scale projects, such as sponge city construction. We also rely on industry associations (such as Hainan New Wall Construction Materials Association and Hainan Block Association), professional promotional meetings sponsored by provincial governments, and industry specific agencies, and research institutes.

The focus of our sales and marketing efforts is to continue to improve our techniques, product quality and customer service that have generated positive customer reviews. We have obtained new customers by word-of-mouth referrals and have found that satisfied customers are loyal customers. In addition, the introduction of new products, such as permeable floor tiles for sponge city construction and slope and dam protection blocks in water conservancy construction have helped open new markets. We believe that this approach has been crucial to winning and retaining clients and increasing our ability to withstand competition. In addition, we are currently researching mineral wool products and the feasibility of producing those products.

## Competition

We face significant competition in both our manufacturing equipment and construction materials markets. We have both domestic and international competitors in our manufacturing equipment market. In the international market for our manufacturing equipment our main competition is German made manufacturing equipment. We believe our competitive strength against these competitors is the lower cost of our equipment that enjoy the same technical standards and high quality service. Our disadvantage is that the German-made equipment has a better aesthetic appearance as compared to the equipment we manufacture. Accordingly, we are attempting to improve the appearance of our equipment to compete with these competitors.



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Our main competitors in the Chinese market for our manufacturing equipment are small Chinese companies located in Fujian Province. We believe our competitive strength against these competitors is the quality of our equipment while our competitive disadvantage is the higher cost of our equipment. There is an increased demand for fully automated construction materials production lines due to the increase of Chinese labor costs.

We are positioned to take advantage of the increased demand for fully automated construction lines due to our current ability to manufacture such equipment.

In both the domestic and international markets we are increasing our research and development of technology for construction materials manufacturing equipment. In addition, we are researching a variety of construction materials that can be made with our manufacturing equipment. We believe that a continued focus on a broad array of products and product designs coupled with our engineering and manufacturing expertise will enable us to provide customers with differentiated product performance and customer support.

Our main competitors for our construction materials are small companies located in Hainan Province where our construction materials production facility is located. In addition, we believe we are the only construction material producer in Hainan Province that uses large automated equipment. Accordingly, this provides us with the advantage of winning large supply contracts in Hainan Province. In fact, a pilot sponge city project in Sanya, Hainan Province and port construction project in Sanya, Hainan Province have used us as their exclusive supplier for construction materials.

## Research and Development

Soon after its establishment, we set up a research and development center in Xi'an. We believe scientific and technological innovation will help our Company achieve its long-term strategic objectives. We conduct research and development in the following areas:

- Manufacturing equipment;
- Recycling and utilization of solid wastes;
- New construction materials; and
- Urban ecological construction (sponge cities).

We conduct our research and development according to strategic objectives, the market and customer needs. Combining application research and advanced research, we will not only improve current products, but also develop future strategic products, realizing technology development in line with the market demand.

Our research and development activities mainly focus on solid waste utilization and recycling, ecological environmental friendly construction materials, technology and equipment, thermal insulation products and related production equipment.

We accounted for the payments as research and development expenses in accordance with ASC 730-20 for the related periods. For the years ended December 31, 2020, 2019 and 2018, we spent \$334,904, \$438,371 and \$656,563, respectively, on research and development associated with our continuing operations. We expect to increase our allocation of research and development funds in the future in an effort to enhance our core competence.

Quality control is an important aspect of our research and development department's work and ensuring quality at every stage of the process has been as key driver in maintaining and developing our brand value. As of December 2019, we employed 5 professionals in research and technology development. We have set up a separate research and development division to account for our investment in research and development. We expect to increase our allocation of research and development funds in an effort to enhance its core competence.

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The Company entered into a contract with AGS to initiate a collaborative approach to produce dry-cast geopolymer concrete products including, dry-cast bricks, blocks, pavers, roof tiles and stone veneer. AGS grew out of the geopolymer research and development performed at Louisiana Tech University and it driven by a team of researchers in the University's Trenchless Technology Center. AGS's President, Erez Allouche is an Associate Professor of Civil Engineering at Louisiana Tech University. The Company believes the contract it entered into with AGS is not material and its business is not substantially dependent on the contract. t. Neither Louisiana Tech University nor any individual from the university own any equity interest in our Company.

As a result of collaboration with the Louisiana Institute of Technology, we have developed a special corrosion-resistant concrete product using a high volume of fly-ash, with the product passing a mid-stage test that involved over 40 fly-ash production formulas. The traditional formula of construction materials made from fly-ash contains approximately 40% fly-ash, whereas the formula we developed tested by AGS contains 80% fly-ash. We have begun setting up China's first research and development base for technology collaboration in Yinchuan City, Ningxia Province, in the hope of rapidly promoting such technology in China. We have also collaborated with Louisiana Institute of Technology, Lanzhou University and China University of Mining and Technology to develop disposal techniques for fly ash and iron tailings.

In 2013, we focused our research and development policies on our full-automatic production lines, to enrich the types of eco-friendly construction materials we offer, and to try and improve our market share. In 2014, we focused our research and development policies on improving our technology skills to try and keep with the level of our international competitors of manufacturing equipment. In addition, we focused on developing an effective wet-forming technology and vibration molding techniques. In 2015 and subsequent years, we focused and will focus our research and development polices on comprehensive treatment of solid waste for use in eco-friendly construction materials, recycling technologies, new eco-friendly construction materials, and heat preservation and energy conservation products.

Sample research and development projects from 2017 to 2019 include the following:

Year 2017

- Automated palletizing system
- Block Forming Machine
- Quick molding change device

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#### Year 2018

- Solid waste comprehensive utilization
- Block production line waste cleaning device
- Hydraulically driven lateral positioning device
- Top plate stacker
- Automatic loading and unloading pallet machine
- Servo motor driven automatic palletizing system

#### Year 2019

- Block separated with pallet and reversing device
- Heat insulation core board pressing forming equipment
- Gantry kiln car
- Servo vibration system for block making machine
- Fully automatic pigment metering feeding device
- Tilting hopper material lifting device
- Method of improving the surface structure of permeable pavor
- Pigment metering device and its application method
- Intelligent and efficient sewage treatment system V1.1

#### Sources of Raw Materials

Our primary raw materials are steel for our manufacturing equipment and iron tailings, fly-ash and cement for our construction materials. We purchase from a variety of suppliers and believe these raw materials are widely available.

We have efficient access to all of the raw materials necessary for the production of our manufacturing equipment and construction materials. We believe our relationships with the suppliers of these raw materials are strong. We do not expect the prices of such raw materials to vary greatly from their current prices, as there has traditionally been little price volatility for such materials.

For the years ended December 31, 2020, 2019 and 2018, the Company purchased approximately 43%, 25% and 28% of its raw materials from one major supplier. If we are unable to purchase from these primary suppliers, we do not expect we would face difficulties in locating other suppliers at substantially the same prices.

#### Intellectual Property Rights

We rely on our technology patents to protect our domestic business interests. We have placed a high priority on the management of our intellectual property. Some products that are material to our operating results incorporate patented technology. Patented technology is critical to the continued success of our business. However, we do not believe that our business, as a whole, is dependent on, or that its profitability would be materially affected by the revocation, termination, expiration or infringement upon any particular patent. We currently hold 69 patents (seven of which are owned jointly with Luoyang) and 8 software copyrights.

Pursuant to Article 15 of Patent Law of China if there is any agreement between the joint owners of the right to apply for a patent or a patent right regarding the exercise of the relevant right, the agreement shall be followed. If there is no such agreement, any of the joint owners may exploit the patent independently or license others to exploit the patent by means of ordinary license. In the case of licensing to others to exploit the patent, royalties charged shall be distributed among the joint owners.

In order to minimize our liabilities or loss from the seven joint patents referenced above, Beijing REIT entered into an agreement with Luoyang on January 7, 2017, regarding the use, licensing, and transfer rights for the joint patents. The agreement, among other terms, provides Beijing REIT with sole use and exclusive right of licensing of the joint patents and prohibits Luoyang and Beijing REIT from transferring the joint patents to any other third parties without each parties' consent. Subsidiaries of Beijing REIT also have the right to use the joint patents under the agreement. In addition, the parties will share any fees generated from any licensing of the joint patents.

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## REGULATION

### Regulations Relating to the Manufacturing Industry

Our manufacturing activities are regulated by the Law of China on Work Safety, or the Work Safety Law, which was adopted in 2002 and amended in 2014. The State Administration of Work Safety is responsible for the supervision and administration of work safety nationwide. Pursuant to the Work Safety Law, production units which are engaged in producing and operating activities in China shall meet the conditions of work safety stipulated by relative law and regulations or national standards or industry standards; otherwise, those production units are not allowed to undertake manufacturing activities in China.

Our major products are regulated by the Law of China on Product Quality, which was promulgated in 1993 and amended in 2009, which require our products to comply with national standards and industry standards during the process of manufacturing and selling. Our products will be defined as defective products if they fail to comply with such standards. Meanwhile if our products cause personal injuries or other product damages, we shall be responsible for applicable compensation. The statute of limitation of legal proceedings for injuries or damages caused by defective products will be two years, commencing from the date of awareness of injuries or damages. Our products are mainly divided into two categories, which are eco-friendly construction materials and equipment used to produce construction materials, respectively. Under the Law of China on Product Quality, our products manufacturing shall be in compliance with five national standards and four industry standards, including but not limited to the GB/T 8533-2008 (national standard) and the JC/T 920-2011 (industry standard) for our manufacturing equipment, and the GB/T 21144-2007 (national standard) and the NY/T 1253-2006 (industry standard) for our construction materials.

### Regulations Relating to Foreign Investment

#### *The Foreign Investment Law.*

On March 15, 2019, the National People's Congress approved the Foreign Investment Law, which took effect on January 1, 2020 and replaced three existing laws on foreign investments in China, namely, the PRC Sino-foreign Equity Joint Venture Law, the PRC Sino-foreign Cooperative Joint Venture Law and the PRC Wholly Foreign-owned Enterprise Law, together with their implementation rules and ancillary regulations. On December 26, 2019, the Regulation on the Implementation of the Foreign Investment Law of the People's Republic of China, was issued by the State Council and came into force on January 1, 2020. The organization form, organization and activities of foreign-invested enterprises shall be governed, among others, by the PRC Company Law and the PRC Partnership Enterprise Law. Foreign-invested enterprises established before the implementation of this Law may retain the original business organization and so on within five years after the implementation of this Law. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic invested enterprises in China. The Foreign Investment Law establishes the basic framework for the access to, and the promotion, protection and administration of foreign investments in view of investment protection and fair competition.

According to the Foreign Investment Law, "foreign investment" refers to investment activities directly or indirectly conducted by one or more natural persons, business entities, or otherwise organizations of a foreign country (collectively referred to as "foreign investor") within China, and the investment activities include the following situations: (i) a foreign investor, individually or collectively with other investors establishes a foreign-invested enterprise within China; (ii) a foreign investor acquires stock shares, equity shares, shares in assets, or other like rights and interests of an enterprise within China; (iii) a foreign investor, individually or collectively with other investors, invests and establishes new projects within China; and (iv) a foreign investor invests through other approaches as stipulated by laws, administrative regulations, or otherwise regulated by the State Council.

According to the Foreign Investment Law, the State Council will publish or approve to publish the "negative list" for special administrative measures concerning foreign investment. The Foreign Investment Law grants national treatment to foreign-invested entities, or FIEs, except for those FIEs that operate in industries deemed to be either "restricted" or "prohibited" in the "negative list". The Foreign Investment Law provides that FIEs operating in foreign restricted or prohibited industries will require market entry clearance and other approvals from relevant PRC governmental authorities. If a foreign investor is found to invest in any prohibited industry in the "negative list", such foreign investor may be required to, among other aspects, cease its investment activities, dispose of its equity interests or assets within a prescribed time limit and have its income confiscated. If the investment activity of a foreign investor is in breach of any special administrative measure for restrictive access provided for in the "negative list", the relevant competent department shall order the foreign investor to make corrections and take necessary measures to meet the requirements of the special administrative measure for restrictive access. On June 30, 2019, MOFCOM and NDRC jointly issued the latest version of Negative List (Edition 2019). See "Regulation — Regulations relating to Foreign Investment — The Guidance Catalogue of Industries for Foreign Investment".

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Besides, the PRC government will establish a foreign investment information reporting system, according to which foreign investors or foreign-invested enterprises shall submit investment information to the competent department for commerce concerned through the enterprise registration system and the enterprise credit information publicity system, and a security review system under which the security review shall be conducted for foreign investment affecting or likely affecting the state security.

Furthermore, the Foreign Investment Law provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the Foreign Investment Law.

In addition, the Foreign Investment Law also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that a foreign investor may freely transfer into or out of China, in Renminbi or a foreign currency, its contributions, profits, capital gains, income from disposition of assets, royalties of intellectual property rights, indemnity or compensation lawfully acquired, and income from liquidation, among others, within China; local governments shall abide by their commitments to the foreign investors; governments at all levels and their departments shall enact local normative documents concerning foreign investment in compliance with laws and regulations and shall not impair legitimate rights and interests, impose additional obligations onto FIEs, set market access restrictions and exit conditions, or intervene with the normal production and operation activities of FIEs; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriation or requisition of the investment of foreign investors is prohibited; and mandatory technology transfer is prohibited.

### ***The Guidance Catalogue of Industries for Foreign Investment***

Investment activities in the PRC by foreign investors are subject to the Catalogue for the Guidance of Foreign Investment Industry, or the Catalogue, which was promulgated and is amended from time to time by the MOFCOM and the NDRC. The Foreign Investment Catalogue which was promulgated jointly by MOFCOM and the NDRC, on June 28, 2017 and became effective on July 28, 2017, classifies industries into three categories with regard to foreign investment: (1) “encouraged”, (2) “restricted”, and (3) “prohibited”. The latter two categories are included in a negative list, which was first introduced into the Foreign Investment Catalog in 2017 and specified the restrictive measures for the entry of foreign investment.

On June 28, 2018, MOFCOM and NDRC jointly promulgated the Special Administrative Measures (Negative List) for Foreign Investment Access, or the Negative List (Edition 2018), which replaced the negative list attached to the Foreign Investment Catalogue in 2017. On June 30, 2019, MOFCOM and NDRC jointly issued the Special Administrative Measures (Negative List) for Foreign Investment Access, or the Negative List (Edition 2019), which replaced the Negative List (Edition 2018), and the Catalogue of Industries for Encouraging Foreign Investment (Edition 2019), or the Encouraging Catalogue (Edition 2019), which replaced the encouraged list attached to the Foreign Investment Catalogue in 2017. On June 23, 2020, MOFCOM and NDRC jointly issued the Special Administrative Measures (Negative List) for Foreign Investment Access, or the Negative List (Edition 2020), which replaced the Negative List (Edition 2019).

Pursuant to the Negative List (Edition 2020) effective on July 23, 2020, any industry that is not listed in any of the restricted or prohibited categories is classified as a permitted industry for foreign investment. Establishment of wholly foreign-owned enterprises is generally allowed for industries outside of the Negative List. For the restricted industries within the Negative List, some are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, restricted category projects are subject to higher-level government approvals and certain special requirements. Foreign investors are not allowed to invest in industries in the prohibited category. Industries not listed in the Negative List are generally open to foreign investment unless specifically restricted by other PRC regulations.

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The Encouraging Catalogue (Edition 2019) effective on July 30, 2019, is divided into two parts, namely the Nationwide Catalogue of Encouraged Industries for Foreign Investment and the Catalogue of Priority Industries for Foreign Investment in Central and Western China. The Nationwide Catalogue of Encouraged Industries for Foreign Investment lists a total of 415 industry sectors that encourage foreign investments; the Catalogue of Priority Industries for Foreign Investment in Central and Western China lists industry sectors that each province and city wish to introduce.

In October 2016, the MOFCOM issued the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises or FIE Record-filing Interim Measures, which was revised in June 2018. Pursuant to FIE Record-filing Interim Measures, the establishment and change of FIE are subject to record-filing procedures, instead of prior approval requirements, provided that the establishment or change does not involve special entry administration measures. If the establishment or change of FIE matters involves the special entry administration measures, the approval of the MOFCOM or its local counterparts is still required. Pursuant to the Announcement [2016] No. 22 of the NDRC and the MOFCOM dated October 8, 2016, the special entry administration measures for foreign investment apply to restricted and prohibited categories specified in the Catalogue, and the encouraged categories are subject to certain requirements relating to equity ownership and senior management under the special entry administration measures.

Currently, our business falls within the permitted category.

#### ***Company Law***

Pursuant to the PRC Company Law, promulgated by the Standing Committee of the National People's Congress (the "SCNPC") on December, 29 1993, effective as of July 1, 1994, and as revised on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, the establishment, operation and management of corporate entities in the PRC are governed by the PRC Company Law. The PRC Company Law defines two types of companies: limited liability companies and companies limited by shares.

Each of our PRC subsidiaries is a limited liability company. Unless otherwise stipulated in the related laws on foreign investment, foreign invested companies are also required to comply with the provisions of the PRC Company Law.

#### ***Regulations on Tax***

See "*Taxation—People's Republic of China Taxation.*"

#### **Regulation of Foreign Currency Exchange and Dividend Distribution**

***Foreign Currency Exchange.*** The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations (1996), as amended on August 5, 2008, the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996) and the Interim Measures on Administration on Foreign Debts (2003). Under these regulations, Renminbi are freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for most capital account items, such as direct investment, loans, repatriation of investment and investment in securities outside China, unless the prior approval of SAFE or its local counterparts is obtained. In addition, any loans to an operating subsidiary in China that is a foreign invested enterprise, cannot, in the aggregate, exceed the difference between its respective approved total investment amount and its respective approved registered capital amount. Furthermore, any foreign loan must be registered with SAFE or its local counterparts for the loan to be effective. Any increase in the amount of the total investment and registered capital must be approved by the China Ministry of Commerce or its local counterpart. We may not be able to obtain these government approvals or registrations on a timely basis, if at all, which could result in a delay in the process of making these loans.

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

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**Dividend Distribution.** The principal regulations governing the distribution of dividends by foreign holding companies include the Company Law of China (1993), as amended in 2013, the Wholly Foreign-Owned Investment Enterprise Law (1986), as amended in 2000, and the Administrative Rules under the Wholly Foreign-Owned Investment Enterprise Law (1990), as amended respectively in 2001 and 2014.

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

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

Moreover, Circular 37 applies retroactively. As a result, Chinese residents who have contributed domestic assets or interests to a SPV, but failed to complete foreign exchange registration of overseas investments as required prior to implementation of Circular 37, are required to send a letter to SAFE and its branches for explanation. Under the relevant rules, failure to comply with the registration procedures set forth in Circular 37 may result in receiving a warning from SAFE and its branches, and may result in a fine of up to RMB 300,000 (approximately \$46,000) for an organization or up to RMB 50,000 (approximately \$8,000) for an individual.

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

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

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

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

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

#### **New M&A Regulations and Overseas Listings**

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

On September 21, 2006, CSRC published on its official website the Provisions on Indirect Issuance of Securities Overseas by a Domestic Enterprise or Overseas Listing of Its Securities for Trading, which specify procedures regarding CSRC's approval for overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of a number of documents with the CSRC and it would take several months to complete the approval process. The application of this new Chinese regulation remains unclear with no consensus currently existing among leading Chinese law firms regarding the scope of the applicability of the CSRC approval requirement.

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

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



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

An offshore company may invest equity in a Chinese company, which will become the Chinese subsidiary of the offshore holding company after investment. Such equity investment is subject to a series of laws and regulations generally applicable to any foreign-invested enterprise in China, which include Foreign Investment Law of the People's Republic of China, Implementation Regulations for the Foreign Investment Law of the People's Republic of China, the Administrative Provisions on Foreign Exchange in Domestic Direct Investment by Foreign Investors; and the Notice of the State Administration on Foreign Exchange on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment.

Under the aforesaid laws and regulations, the increase of the registered capital of a foreign-invested enterprise is subject to the prior approval by the original approval authority of its establishment. In addition, the increase of registered capital and total investment amount shall both be registered with SAIC, Ministry of Commerce and SAFE.

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

Under these regulations, the shareholder loans made by offshore parent holding companies to their Chinese subsidiaries shall be registered with SAFE. Furthermore, the total amount of foreign debts that can be borrowed by such Chinese subsidiaries, including any shareholder loans, shall not exceed the difference between the total investment amount and the registered capital amount of the Chinese subsidiaries, both of which are subject to the governmental approval.

### **Regulations Relating to Intellectual Property Rights**

*Patent.* Patents in China are principally protected under the Patent Law of China, which was promulgated by the Standing Committee of the National People's Congress of the PRC on December 27, 2008 and became effective on October 1, 2009. The duration of a patent right is either 10 years (utility model or design) or 20 years (invention) from the date of application, depending on the type of patent right.

*Copyright.* Copyright in China, including software copyright, is principally protected under the Copyright Law of China which was issued by the Standing Committee of the NPC on February 26, 2010 and became effective on April 1, 2010, and its related rules and regulations. Under the Copyright Law, for a company, the term of protection for copyright is 50 years from the first publication of its work.

*Trademark.* Registered trademarks are protected under the Trademark Law of China promulgated by the Standing Committee of the NPC on August 30, 2013 which took effect on May 1, 2014, and its related rules and regulations. Trademarks are registered with the Trademark Office of the State Administration for Industry and Commerce. Where registration is sought for a trademark that is identical or similar to another trademark that has already been registered or given preliminary examination and approval for use in the same or similar category of commodities or services, the application for registration of such trademark could be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked.

*Domain names.* Domain names are protected under the Administrative Measures on the Internet Domain Names promulgated by the MIIT on April 24, 2017 (effective as of November 1, 2017) and the Registration Implementing Measures on the Domain Names promulgated by the CNNIC. The MIIT is the major regulatory body responsible for the administration of the Chinese Internet domain names, under supervision of which the CNNIC is responsible for the daily administration of .cn domain names and Chinese domain names. MIIT adopts the "first to file" principle with respect to the registration of domain names.

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### ***Employee Stock Option Plans***

In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, replacing earlier rules promulgated in March 2007, to regulate the foreign exchange administration of Chinese citizens and non-Chinese citizens who reside in China for a continuous period of not less than one year, with a few exceptions, who participate in stock incentive plans of overseas publicly-listed companies. Pursuant to these rules, these individuals who participate in any stock incentive plan of an overseas publicly-listed company, are required to register with SAFE through a domestic qualified agent, which could be the Chinese subsidiaries of such overseas listed company, and complete certain other procedures.

### **Regulations Relating to Labor**

Pursuant to the China Labor Law, which first took effect on January 1, 1995 and was most recently amended on December 29, 2018, and the China Labor Contract Law, which became effective on January 1, 2008 and amended in 2012, a written labor contract is required when an employment relationship is established between an employer and an employee. The China Labor Law stipulates the maximum number of working hours per day and per week while other labor-related regulations and rules of China stipulate the minimum wages. An employer is required to set up occupational safety and sanitation systems, implement the national occupational safety and sanitation rules and standards, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards.

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

Pursuant to the Regulations on Occupational Injury Insurance which was adopted in 2004 and amended in 2010, and the Interim Measures concerning the Maternity Insurance for Enterprise Employees, which was adopted in 1995, Chinese companies must pay occupational injury insurance premiums and maternity insurance premiums for their employees. Pursuant to the Interim Regulations on the Collection and Payment of Social Insurance Premiums, which was adopted in 1999, and the Interim Measures concerning the Administration of the Registration of Social Insurance, which was adopted in 1999, basic pension insurance, medical insurance and unemployment insurance are collectively referred to as social insurance. Both Chinese companies and their employees are required to contribute to the social insurance plans. The aforesaid measures are reiterated in the Social Insurance Law of China, which was adopted in July 2011, which stipulates the system of social insurance of China, including basic pension insurance, medical insurance, unemployment insurance, occupational injury insurance and maternity insurance. Pursuant to the Regulations on the Administration of Housing Fund, which was adopted in 1999 and amended in 2002, Chinese companies must register with applicable housing fund management centers and help each of their employees to establish a special housing fund account in an entrusted bank. Both Chinese companies and their employees are required to contribute to the housing funds.

### **Regulations Relating to Environmental Protection**

The Environmental Protection Law, which was adopted in 1989 and amended in 2015, effectively established the legal framework for environment protection in China. The Environmental Protection Law requires the Ministry of Environmental Protection (the “MEP”), to implement uniform supervision and administration of environmental protection work nationwide and establishes national environmental quality standards and pollutants discharge standards. Enterprises producing environmental contamination and other public hazards must incorporate environmental protection work into their planning and establish environmental protection systems.

Through the adoption of the Environmental Impact Assessment Law of China in 2003 and the Rule on Classification for Environmental Impact Assessment of Construction Projects in 2009, the Chinese government established a system to appraise the environmental impact of construction projects and classify the appraisal based on the degree of environmental impact caused by the construction project.

### ***C. Organizational Structure.***

Please refer to Item 4 Subparagraph A, “Information on the Company – History and Development of the Company – Our Corporate Structure – Structural Overview – Organization Structure and Purpose – Corporate Organization Chart and Corporate History.”

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#### D. Property, Plants and Equipment.

Our headquarters is located at Room 1611, No.1 Building, No.208, Second Block, Lize Zhongyuan, Xinxing Industrial Area, Wangjing, Zhaoyang District, Beijing City, People's Republic of China. We have incorporated nine Chinese domestic operating companies, which are separate legal entities. Our facilities are used for manufacture, sales, marketing and administrative functions. We own twelve of the facilities, and the other seventeen facilities are leased. We believe our facilities are adequate for our current needs and we do not believe we will encounter any disputes of property rights or any difficulty in extending the terms of the leases by which we occupy our respective premises. A summary description of our facilities locations follows:

Office	Address	Term	Ownership	Space
The Company office space for registration	Room 1611, No.1 Building, No.208, Second Block, Lize Zhongyuan, Wangjing Xinxing Industrial Area, Chaoyang District, Beijing City	January 2020 - January 2021	Leased	39 sq. m <sup>2</sup>
Office of Beijing REIT Ecological Engineering Co., Ltd.	Apartment No. 2401, 2402, 2404, 2405 and 2406 of Runfengdeshang Mansion, No. 60 of Anli Road, Chaoyang District of Beijing	May, 2018- June, 2022	Leased	593.78 sq. m <sup>2</sup>
Staff dormitory of Beijing REIT Ecological Engineering Co., Ltd.	Room 2304, 5 Building, Luxury Times City, 168 Jixiang Road, Yanta District, Xi'an City	April 2019-March 2022	Leased	126 sq. m <sup>2</sup>
Production Shop and office of REIT Mingsheng Environment Protection Constructional Material (Changjiang) Co., Ltd <sup>(1)</sup>	No.1, Development First Road, Xunhuan Economic Industrial Area, Changjiang City, Hainan Province	December 2011 - May 2062	Owned	306000 sq. m <sup>2</sup>
Office of Beijing Reit Ecological Engineering and Technology Co., Ltd	Room 3396, No.1 Building, No.5 Liufang Nanlijia, Zhaoyang District, Beijing City	April 2020 - April 2021	Leased	10 sq. m <sup>2</sup> .
Office of Reit Ecological Engineering Company	Apartment No. 2403 of Runfengdeshang Mansion, No. 60 of Anli Road, Chaoyang District of Beijing	May, 2018- June, 2022	Leased	202.71 sq. m <sup>2</sup> .
Office of Nanjing Dingxuan Environment Protection Technology Development Co., Ltd	No.156, Zhuangqiang Jizheng, Gaochun District, Nanjing City	January 2018 - January 2023	Leased	70 sq. m <sup>2</sup>
Office of Hainan REIT Construction Project Co., Ltd.	No.1, Development First Road, Xunhuan Economic Industrial Area, Changjiang City, Hainan Province	January 2019 - May 2062	Authorized by REIT Mingsheng to unconditionally use the property.	306000 sq. m <sup>2</sup>
Production shop and office of Langfang Ruirong Mechanical and Electrical Equipment Co., Ltd	Shengda Bridge West Road North, Guangming West Avenue	July 2016 - June 2022	Leased	2970 sq. m <sup>2</sup>
Land Owned by Reit Xinyi New Material Co., Ltd	West Area of Jizheng Avenue, North Area of Tanggang Road, Economic and Technical Development Zone, Xinyi City, Jiangsu Province	February 2017 - February 2067	Owned	74254.61 sq. m <sup>2</sup>

Office of Reit Xinyi New Material Co., Ltd	68-4-302, Minfu Garden, Yunlong District, Xuzhou City Jiangsu Province	April 2020-March 2021	Leased	94 sq. m <sup>2</sup>
Office for the R&D department of Beijing REIT Technology Development Co., Ltd	Units 12001-12002, No. 1 Building, West-side of South 2 <sup>nd</sup> Ring Road, Beilin District, Xi'an City		Owned	245.38 sq. m <sup>2</sup>
Staff dormitory of REIT Mingsheng Environment Protection Constructional Material (Changjiang) Co., Ltd <sup>(2)</sup>	Units 01043, 01044, 01045, 01047, 01071, 01075, 010913, No.1 Building, Jinshui International Residence, East-side of the Changjiang Revenue, Shilu Town, Changjiang County, Hainan Province		Owned	396.41 Sq.m <sup>2</sup>
Staff dormitory of Beijing REIT	Room 601, Unit 1, Building 31, District 1, Tiantong Dongyuan, Changping District, Beijing	June 2018-June 2021	Leased	
Office of Beijing REIT	Room 1812, 18th Floor, Baoli Building, Renmin Road, Handan City	June 2020 - June 2023	Leased	335.6 Sq.m <sup>2</sup>
Staff dormitory of Beijing REIT	11-3-10, Antai Community, No.49 Lingnan Road, Fuxing District, Handan City	September 2020-September 2022	Leased	99.45 Sq.m <sup>2</sup>
Staff dormitory of Beijing REIT	No. 10-1-6, Tianyuan Community, No. 77 Jianshe Street, Fuxing District, Handan City	June 2020-June 2022	Leased	132.38 Sq.m <sup>2</sup>
Staff dormitory of Beijing REIT	No. 8-1-11, Xiyuan Baihua Community, No. 369 Tiexibei Street, Fuxing District, Handan City	June 2020- June2023	Leased	113.37 Sq.m <sup>2</sup>

(1) These properties have been pledged to Industrial & Commercial Bank of China Changjiang Branch for a loan.

(2) These properties have been pledged to Haikou Union Rural Commercial Bank Co., Ltd for a loan.

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#### Item 4A. Unresolved Staff Comments

Not applicable.

#### 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 annual 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 annual report, particularly in "Risk Factors."*

##### A. Operating Results

###### Overview

Our business consists of four business segments, including machinery and equipment production and sales, construction materials production and distribution, municipal construction projects and technological consulting and other services, which accounted for 67%, 32%, 1% and 0% of our total revenue from our continuing operations for the year ended December 31, 2020, respectively, for 48%, 52%, 0% and 0% of our total revenue from our continuing operations for the year ended December 31, 2019, respectively, and 31%, 64%, 3% and 2% of our total revenue from our continuing operations for the year ended December 31, 2018, respectively.

The machinery and equipment we manufacture mostly consist of large-scale automatic environmental protection equipment with hydraulic integration, which can be used to produce various types of eco-friendly construction materials and meet the needs of various ecological projects. In addition, we have entered into the urban ecological construction (sponge cities) business which includes design and construction for urban ecological environments. This business focuses on resource utilization of solid wastes and urban ecological construction.

Our environmentally-friendly construction materials are made from mining waste (iron tailings) and fly-ash and are used for ground works, landscaping, hydraulic engineering projects and wall projects. As of December 31, 2020, our production facilities included factories operated by REIT Changjiang and REIT Xingyi.

We will build a new manufacturing plant for REIT Yancheng and REIT Lingqiu in the near future. We have 67 registered patents (seven of which are jointly owned with Luoyang) and four software copyrights in China and have 14 ongoing research and development projects that are crucial for our businesses. However, we do not believe that our business, as a whole, is dependent on, or that its profitability would be materially affected by the revocation, termination, expiration or infringement of any particular patent.

Our domestic customers are throughout China and our international customers are mainly located in Asia, the Middle East, North Africa and North America. Sales to customers in China and internationally from our continuing operations accounted for approximately 99% and 1%, respectively, of our total sales for the year ended December 31, 2020, approximately 98% and 2%, respectively, of our total sales for the year ended December 31, 2019, approximately 91% and 9%, respectively, and of our total sales for the year ended December 31, 2018. As of December 31, 2020, our products have been sold in 5 countries.

Our primary raw materials in production of construction materials are from iron ore refining, concrete and steel. Cost of revenues mainly includes costs of raw materials, costs of direct labor, utilities, depreciation expenses and other overhead costs.

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## Impact of COVID-19

The Company's operations are affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which in March 2020, was declared a pandemic by the World Health Organization. The COVID-19 outbreak is causing lockdowns, travel restrictions, and closures of businesses. Our business has been negatively impacted by the COVID-19 coronavirus outbreak to a certain extent.

From late January 2020 through March 2020, the Company had to temporarily suspend the manufacturing activities due to government restrictions. During the temporary business closure period, employees had very limited access to our manufacturing facilities and the shipping companies were not available and as a result, the Company experienced difficulty delivering the products to customers on a timely basis. In addition, due to the COVID-19 outbreak, some of the Company's customers or suppliers may experience financial distress, delay or default on their payments, reduce the scale of their business, or suffer disruptions in their business due to the outbreak. Any increased difficulty in collecting accounts receivable, delayed raw materials supply, bankruptcy of small and medium businesses, or early termination of agreements due to deterioration in economic conditions could negatively impact the Company's our results of operations. As COVID-19 was gradually contained in China, the Company's production and sales activities from our continuing operations have been gradually returning to normal. However, the COVID-19 continues to have a severe and negative impact on China and the global economy. In light of the current circumstances and available information, for fiscal 2020, the Company's revenues decreased 67.1% as compared to last year.

Based on assessment of current economic environment, customer demand and sales trend, and the negative impact from COVID-19 outbreak and spread, there is an uncertainty that the Company's revenue and operating cash flows may be significantly lower than expected for fiscal year 2021.

## Pending Nasdaq Compliance Issues

On September 4, 2020, the Company received a letter from the Listing Qualifications staff of The Nasdaq Stock Market ("Nasdaq") notifying the Company that it is no longer in compliance with the minimum bid price requirement for continued listing on the Nasdaq Capital Market. Nasdaq Listing Rule 5550(a)(2) requires listed companies to maintain a minimum bid price of \$1.00 per share. Nasdaq has provided the Company with 180 days, or until March 3, 2021, to regain compliance with the minimum bid price requirement by having a closing bid price of at least \$1.00 per share for a minimum of 10 consecutive business days. As a result of the Company's common shares closing with a bid price of at least \$1.00 for 18 consecutive days from February 4 through March 2, 2021, on March 3, 2021, Nasdaq notified the Company that it has regained compliance with Listing Rule 5550(a)(2) and the matter is now closed.

## Recent Development

On March 1, 2021, the Company entered into a securities purchase agreement (the "Agreement") with an accredited investor (the "Debenture Holder") to place a Convertible Debenture (the "Debenture") with a maturity date of twelve months after the issuance thereof in the aggregate principal amount of up to \$2,300,000 (the "Transaction"), provided that in case of an event of default, the Debenture may become at the Debenture Holder's election immediately due and payable. In addition, the Company paid to an affiliate of the Debenture Holder a fee equal to 3.5% of the amount of the Debenture and a one-time due diligence and structuring fee of \$10,000 at the closing.

The Debenture Holder may convert the Debenture in its sole discretion to Company's common shares at any time at the lower of \$2.50 or 95% of the average of the two lowest daily VWAPs during the ten consecutive trading days immediately preceding the conversion date, provided that the conversion price may not be less than \$0.50 (the "Floor Price"). The Debenture Holder may not convert any portion of a Debenture if such conversion would result in the Debenture Holder beneficially owning more than 4.99% of Company's then issued and common shares, provided that such limitation may be waived by the Debenture Holder with 65 days' notice. Any time after the issuance of a Debenture that the daily VWAP is less than the Floor Price for a period of 10 consecutive trading days (each such occurrence, a "Triggering Event") and only for so long as such conditions exist after a Triggering Event, the Company shall make monthly payments beginning on the 30<sup>th</sup> day after the date of the Triggering Event. Each monthly payment shall be in an amount equal to the sum of (i) the principal amount outstanding as of the date of the Triggering Event divided by the number of such monthly payments until maturity, (ii) a redemption premium of 20% of such principal amount and (iii) accrued and unpaid interest hereunder as of each payment date.

On April 5, 2021 and May 10, 2021, the Debenture Holder entered into a waiver pursuant to which that the Debenture Holder agreed to extend the effectiveness deadline of the registration statement to March 31, 2021 for a consideration of 75,000 common shares.

## Results of Operations from Our Continuing Operations

### Comparison of Operation Results from continuing operations for the Years Ended December 31, 2020, 2019 and 2018

The following table summarizes the results of our continued operations during the fiscal years ended December 31, 2020, 2019 and 2018, and provides information regarding the dollar and percentage increase or (decrease) during such years.

(All amounts, other than percentages, in thousands of U.S. dollars)

	2020		2019			
		As % of Sales		As % of Sales	Amount Increase (Decrease)	Percentage Increase (Decrease)
Statements of Income Data:	Amount		Amount			
Revenues- third party customers	\$ 9,506	98%	\$ 29,468	100%	\$ (19,961)	(68)%
Revenue- related party customers	228	2%	84	-%	144	172%
Total revenue	9,735	100%	29,552	100%	(19,817)	(67)%
Cost of revenues- third party customers	8,429	87%	22,136	75%	(13,707)	(62)%
Cost of revenues – related parties	148	2%	55	-%	93	171%
Total cost of revenues	8,577	88%	22,191	75%	(13,614)	(61)%
Gross profit	1,157	12%	7,361	25%	(6,203)	(84)%
Operating expenses:						
Selling expenses	1,282	13%	1,308	4%	(26)	(2)%
General and administrative expenses	4,640	48%	3,956	13%	686	17%
Bad debt expenses	5,730	59%	8,331	28%	(2,602)	(31)%
Impairment of fixed assets	2,619	27%	1,490	5%	1,129	76%
Research and development expense	335	3%	438	1%	(103)	(24)%
Total operating expenses	14,605	150%	15,523	53%	(917)	(6)%
Income from operations	(13,448)	(138)%	(8,162)	(28)%	(5,286)	65%
Other income (expenses)						
Interest expense, net	(1,545)	(16)%	(1,254)	(4)%	(291)	23%
Interest income	-	-%	5	-%	(5)	(101)%
Recovery (impairment) of acquisition deposit	-	-%	(2,172)	(7)%	2,433	(112)%
Other income (expense), net	431	4%	294	1%	(124)	(42)%
Total other expenses	(1,114)	(11)%	(3,127)	(11)%	2,014	(64)%
(Loss) Income before income taxes	(14,562)	(150)%	(11,289)	(38)%	(3,273)	29%
Provision for income taxes	570	6%	1,007	3%	(437)	(43)%
Net loss from continuing operations	\$ (15,132)	(155)%	\$ (12,296)	(42)%	\$ (2,836)	(23)%
Net loss from discontinued operations	-	%	(2,801)	(9)%	2,801	(100)%
Gain from disposal of Gu'an	2,231	23%	-	%	2,231	-%
Net loss	\$ (12,901)	(133)%	\$ (15,097)	(51)%	\$ 2,197	(15)%

(All amounts, other than percentages, in thousands of U.S. dollars)

	2019		2018		Amount Increase (Decrease)	Percentage Increase (Decrease)
Statements of Income Data:	Amount	As % of Sales	Amount	As % of Sales		
Revenues- third party customers	\$ 29,468	100%	\$ 27,354	93%	\$ 2,114	8%
Revenue- related party customers	84	0%	1,940	7%	(1,856)	(96)%
Total revenue	29,552	100%	29,294	100%	258	1%
Cost of revenues- third party customers	22,136	75%	13,897	47%	8,239	59%
Cost of revenues – related parties	55	0%	1,372	5%	(1,317)	(96)%
Total cost of revenues	22,191	75%	15,269	52%	6,922	45%
Gross profit	7,361	25%	14,025	48%	(6,664)	(48)%
Operating expenses:						
Selling expenses	1,308	4%	1,902	6%	(594)	(31)%
General and administrative expenses	3,956	13%	4,976	17%	(1,020)	(20)%
Bad debt expenses	8,331	28%	1,724	6%	6,607	383%
Impairment of fixed assets	1,490	5%	-	-%	1,490	-%
Research and development expense	438	1%	657	2%	(219)	(33)%
Total operating expenses	15,523	53%	9,259	32%	6,264	68%
Income (loss) from operations	(8,162)	(28)%	4,766	16%	(12,928)	(271)%
Other income (expenses)						
Interest expense, net	(1,254)	(4)%	(1,070)	(4)%	(184)	17%
Interest income	5	0%	7	0%	(2)	(29)%
Impairment of acquisition deposit	(2,172)	(7)%	-	-%	(2,172)	-%
Other income (expense), net	294	1%	(7)	0%	301	(4300)%
Total other expenses	(3,127)	(11)%	(1,070)	(4)%	(2,057)	192%
(Loss) Income before income taxes	(11,289)	(38)%	3,696	13%	(14,985)	(405)%
Provision for income taxes	1,007	3%	1,042	4%	(35)	(3)%
Net (loss) income from continuing operations	\$ (12,296)	(42)%	\$ 2,654	9%	\$ (14,950)	(563)%
Net (loss) income from discontinued operations	(2,801)	(9)%	1,914	7%	(4,715)	(246)%
Net (loss) income	\$ (15,097)	(51)%	\$ 4,568	16%	\$ (19,665)	(430)%

#### Revenues from continuing operations

Our total revenues from continuing operations decreased by approximately \$19.8 million, or 67%, to approximately \$9.7 million for the year ended December 31, 2020 from approximately \$29.6 million for the year ended December 31, 2019. Among our total revenue, revenue from third party customers decreased by \$20.0 million or 68% from approximately \$29.5 million in 2019 to approximately \$9.5 million in 2020, while revenue from related party customers increased by \$0.1 million or 172% from approximately \$83,972 in 2019 to \$228,088 in 2020. The decrease in our total revenue from continuing operations was mainly due to impact of COVID-19.

Our total revenues from continuing operations increased by approximately \$0.3 million, or 1%, to approximately \$29.6 million for the year ended December 31, 2019 from approximately \$29.3 million for the year ended December 31, 2018. Among our total revenue, revenue from third party customers increased by \$2.1 million or 8% from approximately \$27.4 million in 2018 to approximately \$29.5 million in 2019, while revenue from related party customers decreased by \$1.9 million or 96% from approximately \$1.9 million in 2018 to only \$83,972 in 2019. The increase in our total revenue from continuing operations was mainly due to an increase of our machinery and equipment products sales, offset by a decrease of revenue from construction materials and technological consulting services as discussed below.



The following table summarizes the results of revenues from our continuing operations by business segments for the fiscal years ended December 31, 2020, 2019 and 2018:

**Revenue by Business Segment**  
(All amounts, other than percentages, in thousands of U.S. dollars)

	December 31, 2020		December 31, 2019		Variance	
	Amount	% of Sales	Amount	% of Sales	Amount Increase (Decrease)	Percentage Increase (Decrease)
Machinery and Equipment	\$ 6,528	67%	\$ 14,049	48%	\$ (7,521)	(54)%
Construction materials	3,100	32%	15,324	52%	(12,224)	(80)%
Municipal construction	107	1%	179	-%	(72)	(40)%
Total	<u>\$ 9,735</u>	<u>100%</u>	<u>\$ 29,552</u>	<u>100%</u>	<u>\$ (19,817)</u>	<u>(67)%</u>

	December 31, 2019		December 31, 2018		Variance	
	Amount	% of Sales	Amount	% of Sales	Amount Increase (Decrease)	Percentage Increase (Decrease)
Machinery and Equipment	\$ 14,049	48%	\$ 9,178	31%	\$ 4,871	53%
Construction materials	15,324	52%	18,805	64%	(3,481)	(19)%
Municipal construction	179	-%	720	3%	(541)	(75)%
Technological consulting services	-	-%	591	2%	(591)	(100)%
Total	<u>\$ 29,552</u>	<u>100%</u>	<u>\$ 29,294</u>	<u>100%</u>	<u>\$ 258</u>	<u>1%</u>

**Machinery and Equipment**

Revenue from machinery and equipment sales in our continuing operations decreased by approximately \$7.5 million, or 54%, from approximately \$14.0 million for the year ended December 31, 2019 to approximately \$6.5 million for the year ended December 31, 2020. The decrease is mainly due to deteriorated market under the impact of COVID-19.

Revenue from machinery and equipment sales in our continuing operations increased by approximately \$4.9 million, or 53%, from approximately \$9.2 million for the year ended December 31, 2018 to approximately \$14.0 million for the year ended December 31, 2019. The increase is mainly due to the Company has developed more automated machine models and diversified its product offerings to meet customers' demand for environment-friendly equipment. The Company's export sales to Indian market contributed to a significant portion of the revenue increase in machinery and equipment sales during 2019. In addition, the Company has gained more reputation because of the product quality which also contributed to the sales increase.

**Construction materials**

Sales of our environmental-friendly construction materials in our continuing operations decreased by \$12.2 million or 80% for the year ended December 31, 2020 as compared to the year ended December 31, 2019. The decrease was mainly due to deteriorated market under the impact of COVID-19.

Sales of our environmental-friendly construction materials in our continuing operations decreased by \$3.5 million or 19% for the year ended December 31, 2019 as compared to the year ended December 31, 2018. The decrease was mainly affected by more rigorous environmental protection procedures implemented by government authorities in Hainan Province which raised the quality standard of construction materials to be used in the municipal project construction. As a result, more strict assessment of the construction materials is required during the material selection process for municipal projects. Affected by this new requirement, the demand for our construction materials decreased significantly in 2019.

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### ***Municipal construction***

Municipal construction includes such projects as sponge city projects, sewage pipeline construction, public plaza construction, and landscaping. Our environmental-friendly construction materials such as brick and block may be used in these municipal construction projects as required by local governments. Revenue from municipal construction projects in our continuing operations decreased by approximately \$72,000 in fiscal 2020 as compared to fiscal 2019. Revenue from municipal construction projects in our continuing operations decreased by \$0.5 million in fiscal 2019 as compared to fiscal 2018 because we completed existing construction projects in the beginning of the fiscal 2019 and we did not obtain the bid for additional new construction projects after that, which resulted in a decrease in our revenue in this segment in 2019.

### ***Technological consulting services***

We started to provide environmental-protection related consulting services to customers in the second half of 2016. Our subsidiaries Beijing REIT and Dingxuan provided such services to customers by assisting them in planning the environmental-protection projects, providing market research and feasibility reports review and assisting customers to finalize the design, installation, testing and inspection, as well as providing employee training services. Revenue from our consulting service agreements with our customers normally range from approximately \$100,000 to \$250,000 per agreement. We did not provide any environmental-protection related consulting services to customers in 2020 and 2019 and no revenue was reported from this segment in 2020 and 2019. Revenue from this segment amounted to approximately \$591,000 in 2018.

### ***Cost of revenues for continuing operations***

Our total cost of revenues from our continuing operations decreased by approximately \$13.6 million or 61% to approximately \$8.6 million for the year ended December 31, 2020 from approximately \$22.2 million for the year ended December 31, 2019. Cost of revenues from third party customers decreased by \$13.7 million or 62% from approximately \$22.1 million in 2019 to approximately \$8.4 million in 2020, while cost of revenues from related party customers increased by \$93,000 or 171% from approximately \$55,000 in 2019 to approximately \$148,000 in 2020. The decrease in our total cost of revenue was in line with revenue decrease. As a percentage of revenues, the cost of revenues increased by 13% to 88% in fiscal 2019 from 75% in fiscal 2019.

Our total cost of revenues from our continuing operations increased by approximately \$6.9 million or 45% to approximately \$22.2 million for the year ended December 31, 2019 from approximately \$15.3 million for the year ended December 31, 2018. Cost of revenues from third party customers increased by \$8.2 million or 59% from approximately \$13.9 million in 2018 to approximately \$22.1 million in 2019, while cost of revenues from related party customers decreased by \$1.3 million or 96% from approximately \$1.4 million in 2018 to only \$54,598 in 2019. The increase in our total cost of revenue was mainly due to the increase of the costs associated with our construction materials sales, as affected by more rigorous environmental protection procedures implemented by Chinese government which raised the quality standard of construction materials used in the municipal project construction. In addition, we suspended the manufacturing of our machinery and equipment under Gu'an REIT since October 2019 as a result of the government's mandatory requirement to move all manufacturing plants out of Beijing areas. This led us to purchase certain machinery and equipment from third party suppliers at higher costs in order to fulfill customer orders during November to December 2019 period. As a percentage of revenues, the cost of revenues increased by 23% to 75% in fiscal 2019 from 52% in fiscal 2018.

### ***Gross profit from continuing operations***

Our gross profit from our continuing operations decreased by approximately \$6.2 million, or 84%, to approximately \$1.2 million for the year ended December 31, 2020 from approximately \$7.4 million for the year ended December 31, 2019. Gross profit margin from our continuing operations was 12% for fiscal 2020, as compared with 25% for fiscal 2019. The decrease in gross profit margin from our continuing operations by 23% was primarily attributable to: (1) we have to offer competitive price for our products in light of the deteriorated market environment; (2) higher raw material price in fiscal 2020.

Our gross profit from our continuing operations decreased by approximately \$6.7 million, or 48%, to approximately \$7.4 million for the year ended December 31, 2019 from approximately \$14.0 million for the year ended December 31, 2018. Gross profit margin from our continuing operations was 25% for fiscal 2019, as compared with 48% in fiscal 2018. The decrease in gross profit margin from our continuing operations by 23% was primarily attributable to: (1) decreased gross profit in machinery and equipment segment due to higher purchase costs incurred when we outsource and purchased certain machinery and equipment from third party suppliers in order to fulfill customer orders when we suspended our manufacturing activities under Gu'an REIT in late 2019. In order to compete in the fierce market and maintain the market share, we have to offer competitive price for our products, which is not correlated with the increased cost of raw materials, therefore, resulting in the reduced gross margin and gross profit; (2) decreased gross profit in construction material segment due to higher raw material costs and production costs.

Our gross profit and gross margin by segments are as follows:

(All amounts, other than percentages, in thousands of U.S. dollars)

	2020		2019		Variance	
	Gross Profit	Gross Profit%	Gross Profit	Gross Profit%	Gross Profit Increase (Decrease)	Gross Profit% Increase (Decrease)
Machinery and equipment	\$ 2,098	32%	\$ 4,629	33%	\$ (2,530)	(55)%
Construction material	(1,037)	(33)%	2,593	17%	(3,630)	(140)%
Municipal construction	97	90%	139	78%	(43)	(31)%
Total	<u>\$ 1,158</u>	<u>12%</u>	<u>\$ 7,361</u>	<u>25%</u>	<u>\$ (6,203)</u>	<u>(84)%</u>

	2019		2018		Variance	
	Gross Profit	Gross Profit%	Gross Profit	Gross Profit%	Gross Profit Increase (Decrease)	Gross Profit% Increase (Decrease)
Machinery and equipment	\$ 4,629	33%	\$ 6,226	68%	\$ (1,597)	(26)%
Construction material	2,593	17%	7,206	38%	(4,613)	(64)%
Municipal construction	139	78%	183	25%	(44)	(24)%
Technological consulting services	-	-	410	69	(410)	(100)%
Total	<u>\$ 7,361</u>	<u>25%</u>	<u>\$ 14,025</u>	<u>48%</u>	<u>\$ (6,664)</u>	<u>(48)%</u>

#### *Machinery and Equipment*

Gross profit for machinery and equipment products in our continuing operations decreased by approximately \$2.5 million to approximately \$2.1 million for the year ended December 31, 2020 as compared to \$4.6 million for the year ended December 31, 2019. Gross profit margins for this segment were 32% and 33%, respectively for fiscal 2020 and 2019.

Gross profit for machinery and equipment products in our continuing operations decreased by approximately \$1.6 million to approximately \$4.6 million for the year ended December 31, 2019 as compared to \$6.2 million for fiscal 2018. Gross profit margins for this segment were 33% and 68%, respectively for fiscal 2019 and 2018. The gross margin decreased mainly because we incurred higher purchase costs to outsource and purchase certain machinery and equipment from third party suppliers in order to fulfill customer orders when we suspended our manufacturing activities under Gu'an REIT in late 2019. In addition, due to in order to compete in the fierce market and gain the market share, we have to maintain competitive price for our products, which is not correlated with the increased cost of raw materials, therefore, resulting in the reduced gross margin and gross profit.

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### ***Construction materials***

Gross loss for construction materials in our continuing operations was approximately \$1.0 million for the year ended December 31, 2020 compared to a gross profit of approximately \$2.6 million for the year ended December 31, 2019. The gross profit margin for this segment was approximately negative 33% for the year ended December 31, 2020 as compared to 17% for the year ended December 31, 2019. The gross margin decrease was mainly due to higher costs of raw materials and higher production costs as affected by more rigorous environmental protection procedures implemented by Chinese government which raised the quality standard of construction materials used in the municipal project construction.

Gross profit for construction materials in our continuing operations was approximately \$2.6 million for the year ended December 31, 2019 compared to approximately \$7.2 million for the year ended December 31, 2018. The gross profit margin for this segment was approximately 17% for the year ended December 31, 2019 as compared to 38% for the year ended December 31, 2018. The gross margin decrease was mainly due to higher costs of raw materials and higher production costs as affected by more rigorous environmental protection procedures implemented by Chinese government which raised the quality standard of construction materials used in the municipal project construction.

### ***Municipal construction***

Gross profit for the municipal construction project segment from our continuing operations was \$0.1 million, \$0.1 million and \$0.2 million for the years ended December 31, 2020, 2019 and 2018, respectively.

### ***Technological consulting services***

Gross profit for consulting services from our continuing operations was \$Nil, \$Nil and \$0.4 million in 2020, 2019 and 2018.

### ***Selling expenses from continuing operations***

For fiscal 2020, our selling expenses from our continuing operations were \$1.3 million, representing a slight decrease from \$1.3 million in fiscal 2019. As a percentage of sales, our selling expenses were 13% and 4% for the years ended December 31, 2020 and 2019, respectively.

For fiscal 2019, our selling expenses from our continuing operations were \$1.3 million, representing a 31% decrease from \$1.9 million in fiscal 2018. The decrease was mainly due to lower sales commissions, advertising costs and shipping and handling fees in fiscal 2019. As a result our decreased sales revenue from construction materials, sales commission paid to our sales personnel to promote the sales decreased. The decrease in shipping and handling fees was mainly due to decreased sales. As a percentage of sales, our selling expenses were 4% and 7% for the years ended December 31, 2019 and 2018, respectively.

### ***General and administrative expenses from continuing operations .***

For fiscal 2020, our general and administrative expenses from our continuing operations were \$4.6 million, representing an approximate decrease of \$0.7 million compared to approximately \$4.0 million in fiscal 2019. The increase in general and administrative expenses was mainly due to increased consulting and professional fees. As a percentage of revenues, general and administrative expenses were 48% and 13% of our total revenues for the years ended December 31, 2020 and 2019, respectively.

For fiscal 2019, our general and administrative expenses from our continuing operations were \$4.0 million, representing an approximate decrease of \$1.0 million compared to approximately \$5.0 million in fiscal 2018. The decrease in general and administrative expenses was mainly due to decreased consulting and professional fees. As a percentage of revenues, general and administrative expenses were 13% and 17% of our total revenues for the years ended December 31, 2019 and 2018, respectively.

### ***Bad debt expenses***

For fiscal 2020, our bad debt expenses from our continuing operations were \$5.7 million, representing an decrease of approximately \$2.6 million as compared to \$8.3 million in fiscal 2019. We incurred significant bad debt expenses on uncollectible accounts receivable and advance payments due to change in market conditions as affected by the COVID-19 outbreak and spread. As a percentage of revenues, bad debt expenses were 59% and 28% of our total revenues for the years ended December 31, 2020 and 2019, respectively.

For fiscal 2019, our bad debt expenses from our continuing operations were \$8.3 million, representing an increase of approximately \$6.6 million as compared to \$1.7 million in fiscal 2018. We incurred significant bad debt expenses on uncollectible accounts receivable and advance payments due to change in market conditions as affected by the COVID-19 outbreak and spread. Due to the COVID-19 outbreak, some of our customers in China and India experienced financial distress, delayed or defaulted on their payments, reduced the scale of their business, or suffered disruptions in their business, which led to our increased bad debt provision in 2019. As a percentage of revenues, bad debt expenses were 28% and 6% of our total revenues for the years ended December 31, 2019 and 2018, respectively.

Due to the collection difficulty arising from the COVID-19 outbreak and spread, we reassessed our collectability and adjusted our bad debt policy. For accounts receivable aged from 4 to 6 months, a 10% bad debt reserve has been applied against the outstanding balance; for accounts receivable aged above 7 months, a 100% bad debt reserve has been applied against the outstanding balance as of December 31, 2020. Below is the aging schedule of accounts receivable as of December 31, 2020 and 2019.

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Accounts Receivable Age:		
Less than 3 months	\$ 2,533,525	\$ 5,387,285
From 4 to 6 months	686,175	4,107,880
From 7 to 9 months	408,037	4,284,179
From 10 to 12 months	160,761	3,397,470
Over 1 year	14,351,922	5,669,030
Bad debt reserve	(14,717,842)	(11,124,368)
Accounts Receivable, net	\$ 3,422,578	\$ 11,721,476
Less: Accounts Receivable, net - related party	202,074	(469,474)
Accounts Receivable, net - third parties	<u>\$ 3,220,504</u>	<u>\$ 11,252,002</u>

The increase of accounts receivable aged over 1 year was mainly due to the increase of the accounts receivable balance from sales of machinery and equipment. Due to change in market conditions as affected by the COVID-19 outbreak and spread, the Company's collection efforts did not result in a favorable outcome as compared to prior years. The Company believes that its current accounts receivable bad debt reserve is adequate based on its ongoing assessment.

### ***Research and development expenses.***

Our research and development expenses from our continuing operations were approximately \$0.3 million, \$0.4 million and \$0.7 million years ended December 31, 2020, 2019 and 2018, respectively.

### ***Impairment of fixed assets***

During the year ended December 31, 2020 and 2019, given the Company's net loss position, the Company further assessed that the expected future cash flows may not cover the carrying value of the Company's fixed asset equipment and machinery. As a result, the Company recorded an additional impairment of approximately \$2.6 million and \$1.5 million on its fixed assets from our continuing operations for the year ended December 31, 2020 and 2019.

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### ***Interest expense***

Our interest expenses from our continuing operations were approximately \$1.5 million, \$1.3 million and \$1.1 million years ended December 31, 2020, 2019 and 2018, respectively. The slight increased in interest expenses for fiscal 2020 as compared to fiscal 2019 was because of higher weighted average interest rate for 2020.

### ***Impairment of an acquisition deposit***

On October 8, 2018, REIT Changjiang entered into a letter of intention (“LOI”) with a third-party target company Ruihan Concrete Technology Co.,Ltd. (“Ruihan”) for the purpose of a potential acquisition or business cooperation in construction material area. REIT Changjiang made an advance payment of \$2,181,000 (RMB 15 million) to Ruihan as an acquisition deposit. The tentative effective date of the LOI is until August 30, 2019. The deposit is refundable if no agreement would be reached.

During the year ended December 31, 2019, the negotiation with Ruihan did not result in a favorable outcome and the Company determined not to proceed with any definitive agreement with Ruihan. As of December 31, 2019, the Company did not receive the refund from Ruihan after rigorous collection efforts. Due to change in market conditions as affected by the COVID-19 outbreak and spread, Ruihan suffered financial difficulty and the collection of the refund from Ruihan became remote, as the result, a full impairment of approximately \$2.2 million has been recorded against the acquisition deposit for the year ended December 31, 2019.

### ***Other income (expense)***

Other income amounted to approximately \$0.4 million in fiscal 2020, mainly represents approximately \$261,000 acquisition deposit received (impaired in 2019) and government subsidy. We had other income of approximately \$0.3 million from our continuing operations in fiscal 2019, mainly due to approximately \$0.3 million government subsidy and we recognized certain balances over three years in customer advance as other income. We had other expense of \$6,604 in fiscal 2018.

### ***Loss before income taxes***

Our loss before income taxes from our continuing operations was approximately \$14.6 million for the year ended December 31, 2020, an increase of approximately \$3.3 million as compared to loss before income taxes of approximately \$11.3 million for the year ended December 31, 2019. The increase in our loss before income taxes was primarily attributable to increased costs and expenses as discussed above.

Our loss before income taxes from our continuing operations was approximately \$11.3 million for the year ended December 31, 2019, an increase of approximately \$15.0 million as compared to income before income taxes of approximately \$3.7 million for the year ended December 31, 2018. The increase in our loss before income taxes was primarily attributable to increased costs and expenses as discussed above.

### ***Provision for income taxes for continuing operations***

The Company’s operating subsidiaries are all incorporated in the PRC and are subject to PRC income tax, which is computed according to the relevant laws and regulations in the PRC. Under the Corporate Income Tax Law of PRC, the corporate income tax rate applicable to all companies, including both domestic and foreign-invested companies, is 25%. However, Beijing REIT is recognized as a High-technology Company by Chinese government and subject to a favorable income tax rate of 15%.

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The following table reconciles the statutory rate to the Company's effective tax rate from our continuing operations:

	For the Years ended December 31,		
	2020	2019	2018
China Statutory income tax rate	25%	25.0%	25.0%
Effect of favorable income tax rate in certain entity in PRC	(0.4)%	(2.2)%	(2.4)%
Non-PRC entities not subject to PRC tax	(2.8)%	2.1%	10.5%
Research & Development ("R&D") tax credit	(1.7)%	0.4%	(1.4)%
Non-deductible expenses - permanent difference	(2.2)%	(0.1)%	0.5%
Change in valuation allowance	(21.8)%	(34.2)%	(4.0)%
Effective tax rate	(3.9)%	(9.1)%	28.2%

## B. Liquidity and Capital Resources

We are a holding company incorporated in the British Virgin Islands. REIT Holdings, our wholly owned subsidiary established in Hong Kong, owns Beijing REIT, REIT Xinyi, REIT Ecological and REIT Yancheng, which Beijing REIT in turn owns our assets through its subsidiaries in China, India and the United States. We may need dividends and other distributions in equity from our subsidiaries, including the China Operating Companies to satisfy our liquidity requirements. Current Chinese regulations permit our China Operating Companies to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, our China Operating Companies are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of their respective registered capital. Our China Operating companies may also allocate a portion of their after-tax profits based on Chinese accounting standards to employee welfare and bonus funds at their discretion. These reserves are not distributable as cash dividends. We have relied on direct payments of expenses by our subsidiaries (which generate revenues), to meet our obligations to date.

Substantially all of our operations are conducted in China and are denominated in RMB, which is subject to the exchange control regulation in China, and, as a result, we may have difficulty distributing any dividends outside of China due to PRC exchange control regulations that restrict the ability to convert RMB into U.S. Dollars.

Under applicable Chinese regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, a foreign-invested enterprise in China is required to set aside at least 10% of its after-tax profit based on Chinese accounting standards each year to its general reserves until the accumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity owners except in the event of liquidation. Under Chinese law, RMB is currently convertible into U.S. Dollars under a company's "current account," which includes dividends, trade and service-related foreign exchange transactions, without prior approval of the State Administration of Foreign Exchange ("SAFE"), not from a company's "capital account," which includes foreign direct investments and loans, without the prior approval of the SAFE.

We have historically funded our working capital needs from operations, advance payments from customers, bank borrowings, capital contributions from shareholders and related-party loans. Presently, our principal sources of liquidity are generated from our operations, proceeds from our shareholders' contributions, and loans and notes from commercial banks. Our working capital requirements are influenced by the level of our operations, the numerical volume and dollar value of our sales contracts, the progress of execution on our customer contracts, and the timing of accounts receivable collections.

As reflected in the Company's consolidated financial statements for the year ended December 31, 2020, the Company's revenue decreased by approximately \$19.8 million, or 67.1%, from approximately \$29.6 million in the year ended December 31, 2019 to approximately \$9.7 million in the year ended December 31, 2020, its gross profit from continued operation decreased by approximately \$6.2 million, or 84.3%, from approximately \$7.4 million in the year ended December 31, 2019 to approximately \$1.2 million for the year ended December 31, 2020, and its gross margin for the year ended December 31, 2020 decreased to 11.9% from 24.9% from last year. These decreases were mainly attributable to increasing raw material cost for manufacturing and decreasing sales of the Company's construction materials, due to the Company's failure to obtain bids from new municipal construction projects. In addition, for the year ended December 31, 2020 and 2019, the Company incurred significant impairment losses on bad debt expenses on uncollectible accounts receivable and advance payments due to changes in market conditions of its customers and suppliers. As a result, for the year ended December 31, 2020 and 2019, the Company reported a net loss of approximately \$12.9 million and \$15.1 million, respectively. As of December 31, 2020, the Company had a working capital deficit of approximately \$9.4 million.

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In addition, the Company had large bank borrowings as of December 31, 2020 and some of the bank loans will mature and need to be repaid within the next 12 months. If the Company cannot renew existing loans or borrow additional loans from banks, the Company's working capital may be further negatively impacted. Furthermore, in January 2020, the Company discontinued its machinery and equipment manufacturing business under Gu'an REIT (see Note 4), which may negatively impact the Company's ability to fulfill customer orders if outsourcing of such manufacturing activities to third-party suppliers cannot meet the expectation or higher purchase costs may shrink the Company's profitability in this business sector. The outbreak and spread of the COVID-19 throughout China and worldwide has caused significant volatility in the PRC and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the PRC and international economies. To reduce the spread of the COVID-19, the Chinese government has employed measures including city lockdowns, quarantines, travel restrictions, suspension of business activities, and school closures. Due to difficulties and challenges resulting from the COVID-19 outbreak, the Company temporarily closed its facilities and operations until late March 2020. During this temporary business closure period, there was limited support from the Company's employees, delayed access to raw material supplies, reduced customer sales orders, and the Company's inability to promote the sales to customers on a timely basis. Based on the assessment of the current economic environment, customer demand, and sales trend, and the negative impact from COVID-19 outbreak and spread, there is an uncertainty that the Company's revenue and operating cash flows may be significantly lower than expected for the next 12 months.

As of December 31, 2020, the Company had cash of approximately \$1.1 million. In addition, the Company had outstanding accounts receivable of approximately \$3.4 million (including accounts receivable from third-party customers of \$3.2 million and accounts receivable from related party customers of approximately \$0.2 million), of which approximately \$0.3 million, or 3%, had been subsequently collected back between January and April 2021, and became available for use as working capital. As of December 31, 2020, the Company had outstanding bank loans of approximately \$15.9 million from a PRC bank (including short-term loans of approximately \$6.7 million, current portion of long-term loans of approximately \$2.9 million, and long-term loans of approximately \$6.3 million).

On March 1, 2021, the Company entered into a securities purchase agreement (the "Agreement") with an accredited investor (the "Debenture Holder") to place a Convertible Debenture (the "Debenture") with a maturity date of twelve months after the issuance thereof in the aggregate principal amount of up to \$2,300,000 (the "Transaction"), provided that in case of an event of default, the Debenture may become at the Debenture Holder's election immediately due and payable. The Debenture Holder may convert the Debenture in its sole discretion to Company's common shares at any time at the lower of \$2.50 or 95% of the average of the two lowest daily VWAPs during the ten consecutive trading days immediately preceding the conversion date.

Management expects that it would be able to renew all of its existing bank loans upon their maturity based on past experience and the Company's good credit history. Currently, the Company is working to improve its liquidity and capital source mainly through cash flow from its operations, renewal of bank borrowings, and borrowing from related parties. In order to fully implement its business plan and sustain continued growth, the Company may also seek equity financing from outside investors. At the present time, however, the Company does not have commitments of funds from any potential investors. No assurance can be given that additional financing, if required, would be available on favorable terms or at all.

Based on above reasons, there is a substantial doubt about the Company's ability to continue as a going concern for the next 12 months from the issuance of the consolidated financial statements.



## Cash flows

### Years ended December 31, 2020, 2019 and 2018

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

(All amounts in thousands of U.S. dollars)

	December 31, 2020	December 31, 2019	December 31, 2018
Net cash provided by (used in) operating activities	976	\$ 87	\$ (904)
Net cash used in investing activities	944	(74)	(11,545)
Net cash (used in) provided by financing activities	(1,902)	(547)	3,456
Effect of exchange rate changes on cash and cash equivalents	121	(43)	(307)
Net (decrease) increase in cash and cash equivalents	139	(577)	(9,300)
Cash and restricted cash, beginning of year	982	1,563	10,863
Cash and restricted cash, end of year	1,121	\$ 986	\$ 1,563
Less: cash and cash equivalents, restricted cash of discounted operations at end of period	-	4	19
Cash and cash equivalents, restricted cash of continued operation, at end of period	1,121	982	1544

### Operating Activities

Net cash provided by operating activities was approximately \$1.0 million in fiscal year 2020. Net cash provided by operating activities in fiscal year 2020 mainly consisted of net loss of \$12.9 million, adjustments of \$9.5 million non-cash items, an decrease of approximately \$4.6 million in accounts receivable, an increase of approximately \$1.6 million in advance from customers, an increase of \$1.1 million in tax payable and an increase of \$3.5 million in accrued and other liabilities, offset by a decrease of approximately \$1.7 million in accounts payable and an increase of approximately \$1.1 million in advance to suppliers.

Net cash provided by operating activities was approximately \$0.09 million in fiscal year 2019. Net cash provided by operating activities in fiscal year 2019 mainly consisted of net loss of \$15.1 million, adjustments of \$15.2 million non-cash items, an increase of approximately \$5.6 million in accounts receivable, offset by an increase of approximately \$1.1 million in accounts payable and an increase of \$0.7 million in tax payable.

Net cash used in operating activities was approximately \$0.9 million in fiscal year 2018. Net cash used in operating activities in fiscal year 2018 mainly consisted of net income of \$4.6 million, adjustments of \$3.1 million non-cash items, and a decrease of approximately \$1.8 million in accounts receivable, offset by an increase of \$1.4 million in advances to suppliers, an increase of \$0.7 million in inventory, a decrease of \$3.0 million in advances from customers, a decrease of \$2.5 million in accrued and other liabilities, and a decrease of \$0.8 million in tax payable.

### Investing Activities

Net cash used in investing activities was approximately \$0.9 million for the year ended December 31, 2020. During the year ended December 31 2020, we paid \$0.2 million on the construction in progress ("CIP") projects and purchase of equipment. We paid approximately \$2.6 million for the acquisition of a 41.67% ownership interest in Shexian Ruibo. Meantime, we received \$3.8 million for disposition of Gu'an REIT.

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Net cash used in investing activities was approximately \$0.07 million for the year ended December 31, 2019. During the year ended December 31 2019, the Company paid \$1.1 million on the construction in progress (“CIP”) projects to build a new factory facility and purchase of equipment for the Company’s subsidiary REIT Xinyi. We also prepaid approximately \$0.3 million for the construction of facilities for our newly established REIT Yancheng. Meantime, we received advance payment of \$1.4 million from the buyer associated with the discontinued operation of Gu’an REIT.

Net cash used in investing activities was approximately \$11.5 million for the year ended December 31, 2018. During the year ended December 31 2018, the Company paid \$5.4 million on the construction in progress (“CIP”) projects to build a new factory facility and purchase of equipment for the Company’s subsidiary REIT Xinyi. We prepaid approximately \$3.8 million for the construction of facilities for our newly established REIT Yancheng. We also made an investment intention deposit of approximately \$2.3 million for a potential acquisition. As of the report date, the acquisition is still under negotiation.

#### ***Financing Activities***

Net cash used in financing activities was approximately \$1.9 million for the year ended December 31, 2020, including proceeds from bank loans of \$11.0 million, offset by the repayment of bank loans of \$13.2 million and net proceeds from related parties of \$0.3 million.

Net cash used in financing activities was approximately \$0.5 million for the year ended December 31, 2019, including proceeds from bank loans of \$9.7 million, offset by the repayment of bank loans of \$9.9 million and net repayment to related parties of \$0.1 million.

Net cash provided by financing activities was approximately \$3.5 million for the year ended December 31, 2018, including proceeds from bank loans of \$19.5 million, and net proceed from related parties of \$0.2 million, partly offset by the repayment of bank loans of \$16.2 million.

#### ***Statutory Reserves***

The Company is 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 GAAP 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 restricted amounts as determined pursuant to PRC statutory laws totaled \$2,386,119 and \$2,632,797 as of December 31, 2020 and 2019.

#### ***Capital Expenditures***

We had capital expenditures of approximately \$0.2 million, \$1.5 million, and \$9.3 million for the years ended December 31, 2020, 2019 and 2018, respectively for purchases of equipment and conducting our CIP projects construction in connection with our business activities.

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### **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 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.

### **Discontinued operations**

On January 2, 2020, the Company discontinued the machinery and equipment manufacturing business under Gu’an REIT. A component of a reporting entity or a group of components of a reporting entity that are disposed or meet the criteria to be classified as held for sale, such as the management, having the authority to approve the action, commits to a plan to sell the disposal group, should be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. Discontinued operations are reported when a component of an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity is classified as held for disposal or has been disposed of, if the component either (1) represents a strategic shift or (2) have a major impact on an entity’s financial results and operations. In the consolidated statements of operations and comprehensive loss, results from discontinued operations are reported separately from the income and expenses from continuing operations and prior periods are presented on a comparative basis. In order to present the financial effects of the continuing operations and discontinued operations, revenue and expenses arising from intra-group transactions are eliminated except for those revenue and expenses that are expected to continue after the disposal of the discontinued operations.

### **Accounts Receivable, net**

Accounts receivable are recognized and carried at original invoiced amount less an estimated allowance for uncollectible accounts. The Company usually grants credit to customers with good credit standing with a maximum of 180 days and determines the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. The Company establishes a provision for doubtful receivables when there is objective evidence that the Company may not be able to collect amounts due. The allowance is based on management’s best estimates of specific losses on individual exposures, as well as a provision on historical trends of collections. Based on the assessment of customers’ credit and ongoing relationships, the Company’s payment terms typically range from 90 days to 1 year. The provision is recorded against accounts receivables balances, with a corresponding charge recorded in the consolidated statements of income and comprehensive income. Actual amounts received may differ from management’s estimate of credit worthiness and the economic environment. Delinquent account balances are written-off against the allowance for doubtful accounts after management has determined that the likelihood of collection is not probable. As affected by the recent COVID-19 outbreak and spread, the Company’s accounts receivable collection was negatively affected. Based on subsequent collection analysis, the Company accrued increased bad debt reserve for the outstanding accounts receivable as of December 31, 2020. As a result, allowance for uncollectible balances amounted to \$14,717,842 and \$11,124,368 as of December 31, 2020 and 2019, respectively.

## Impairment of Long-lived Assets

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. During the year ended December 31, 2019, the Company disposed of approximately \$0.2 million of outdated and fully depreciated equipment and machinery. Given the Company's net loss position in fiscal 2019 and 2020, the Company further assessed that the expected future cash flow generated from its machinery, equipment, and other long-lived assets would not recover their carrying value and as a result, the Company recorded an impairment of approximately \$2.6 million and \$1.5 million on these fixed assets for the year ended December 31, 2020 and 2019.

## Revenue Recognition

The Company adopted ASC Topic 606 Revenue from Contracts with Customers ("ASC 606") on January 1, 2018 using the modified retrospective approach. Under ASC 606, revenue is recognized when control of promised goods or services is transferred to the Company's customers in an amount of consideration to which an entity expects to be entitled to in exchange for those goods or services.

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.

The Company's revenues are primarily derived from the following sources:

- Revenue from machinery and equipment sales

The Company recognizes revenue when the machinery and equipment is delivered and control is transferred. The Company generally provide a warranty for a period of 12 months after the customers receive the equipment. The Company determines that such product warranty is not a separated performance obligation because the nature of warranty is to provide assurance that a product will function as expected and in accordance with customer's specification and the Company has not sold the warranty separately. From its past experience, the Company has not experienced any material warranty costs and, therefore, the Company does not believe an accrual for warranty cost is necessary for the years ended December 31, 2020 and 2019.

- Revenue from construction materials sales

The Company recognizes revenue, net of sales taxes and estimated sales returns, when the construction materials are shipped to, delivered to or picked up by customers and control is transferred.

- Revenue from municipal construction projects

The Company provides municipal construction services which includes sponge city projects, sewage pipeline construction, public plaza construction, and landscaping, etc. The Company recognizes revenue associated with these contracts over time as service is performed and the transfer of control occurs, based on a percentage-of-completion method using cost-to-cost input methods as a measure of progress. When the percentage-of-completion method is used, the Company estimates the costs to complete individual contracts and records as revenue that portion of the total contract price that is considered complete based on the relationship of costs incurred to date to total anticipated costs (the cost-to-cost approach).

Under the cost-to-cost approach, the use of estimated costs to complete each contract is a significant variable in the process of determining recognized revenue, requires judgment and can change throughout the duration of a contract due to contract modifications and other factors impacting job completion. The costs of earned revenue include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

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- Revenue from technological consulting and other services

The Company recognizes revenue when technological consulting and other services are rendered and accepted by the customers.

#### 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 December 31, 2020 and 2019, 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 products and services, as we believe it best depicts how the nature, amount, timing and uncertainty of the revenue and cash flows are affected by economic factors.

#### Income Taxes

The Company accounts for income taxes under ASC 740. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

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.

The provisions of ASC 740-10-25, "Accounting for Uncertainty in Income Taxes," prescribe a more-likely-than-not threshold for consolidated financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. This interpretation also provides guidance on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and related disclosures. The Company records a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated.

To the extent applicable, the Company records interest and penalties as a general and administrative expense. The Company's subsidiaries in China and Hong Kong are subject to the income tax laws of the PRC and Hong Kong. No significant taxable income was generated outside the PRC for the years ended December 31, 2020, 2019 and 2018. As of December 31, 2020, the tax years ended December 31, 2016 through December 31, 2020 for the Company's PRC subsidiaries remain open for statutory examination by PRC tax authorities.

## Recent Accounting Pronouncements

A list of recent relevant accounting pronouncements is included in Note 2 “Summary of Principal Accounting Policies” of our Consolidated Financial Statements.

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

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

### D. *Trend Information.*

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on our net revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

### E. *Off-Balance Sheet Arrangements.*

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholders’ equity, or that are not reflected in our consolidated financial statements.

### F. *Tabular Disclosure of Contractual Obligations.*

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

The Company’s subsidiaries lease office spaces under operating leases. Operating lease expense amounted to \$188,802, \$256,693 and \$233,921 for the years ended December 31, 2020, 2019 and 2018.

As of December 31, 2020, the Company’s contractual obligations consisted of the following:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Operating lease commitment	\$ 367,491	125,885	241,606	-	\$ -
Repayment of bank loans	15,859,903	9,574,603	5,212,200	1,073,100	-
<b>Total</b>	<b>\$ 16,227,394</b>	<b>9,700,488</b>	<b>5,453,806</b>	<b>1,073,100</b>	<b>\$ -</b>

### G. *Safe Harbor.*

See “Forward-Looking Statements.”

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management.

#### MANAGEMENT

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

Name	Age	Position	Appointed
Hengfang Li <sup>(1)(2)</sup>	59	Chief Executive Officer and Chairman of the Board	April 19, 2016 <sup>(8)</sup>
Guangfeng Dai <sup>(1)(2)</sup>	60	Chief Operating Officer and Director	November 7 2016
Zhizhong Hu <sup>(1)(2)</sup>	59	Chief Technology Officer and Director	November 7, 2016
Degang Hou	59	Chief Internal Control Officer	Not Applicable
Xingchun Wang <sup>(1)</sup>	51	Chief Financial Officer	Not Applicable
Shuhua Ma <sup>(1)(3)(5)(6)(7)</sup>	51	Director	November 20, 2019
Zhi Li <sup>(1)(3)(5)(6)(7)</sup>	59	Director	November 7, 2016
Sophia Liu <sup>(1)(4)(5)</sup>	43	Director	November 7, 2016
Austin Huang <sup>(1)(4)(6)(7)</sup>	64	Director	November 7, 2016

(1) The individual's business address is c/o Beijing REIT Technology Development Co., Ltd., Building X-702, 60 Anli Road, Chaoyang District, Beijing China.

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

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

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

(5) Member of audit committee.

(6) Member of compensation committee.

(7) Member of nominating committee.

(8) Mr. Li's appointment was affirmed by the shareholders on November 7, 2016.

**Hengfang Li.** Mr. Li has served as the Chief Executive Officer and Chairman of ReTo Eco-Solutions since April 2016. Mr. Li founded Beijing REIT in 1999 and has served as Beijing REIT's Chief Executive Officer and Chairman since 1999. Mr. Li served as the chief representative in China of the German Hess Group from 1995 until 1999. From 1988 through 1995, Mr. Li was an engineer, senior engineer and then branch director at China North Vehicle Engine Research Center. Mr. Li holds a Master degree in Engine Studies from Beijing Institute of Technology. Mr. Li was nominated as a director because of his experience serving as an executive in the construction materials industry and has extensive knowledge, experience and relationships in China's construction materials industry.

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**Guangfeng Dai.** Mr. Dai became the President of ReTo Eco-Solutions in 2020. Previously Mr. Dai served as the Chief Operating Officer and of ReTo Eco-Solutions, and has served as a Director since November 2016. Mr. Dai has served as Beijing REIT's Chief Operating Officer and Director since 2000. Mr. Dai served as the deputy representative in China for Hess Mechanical Engineering Co., Ltd. of Germany from 1997 until 2000. From 1995 through 1997, Mr. Dai was a senior engineer at Yanxing Corporation of China. From 1992 through 1994, Mr. Dai was a senior engineer at China North Industries Group Corporation. Mr. Dai received his Master degree in Automobile Engineering from Beijing Institute of Technology. Mr. Dai was nominated as a director because of his operations and management experience and of his knowledge of our Company as a long-term executive of Beijing REIT.

**Zhizhong Hu.** Mr. Hu has served as the Chief Technology Officer and Director of ReTo Eco-Solutions since November 2016. Mr. Hu has served as Beijing REIT's Chief Technology Officer and Director since 2000. Mr. Hu served as the general manager and executive director of Yichang Hayes Building Materials Co., Ltd. from 1997 through 2000. From 1996 through 1997, Mr. Hu served as the business representative for Hayes Mechanical Engineering Co., Ltd. of Germany. Mr. Hu received his Bachelor's Degree in Mechanical Engineering from Nanjing University of Science and Technology. Mr. Hu was nominated as a director because of his experience in research and development.

**Degang Hou.** Mr. Hou has served as the Chief Internal Control Office of ReTo Eco-Solutions since 2020. From 1983 through 1999, he was an engineer and senior engineer of North Vehicle Research Institute, State Weaponry Equipment Corporation. From 1999 through 2020 he was the deputy general manager for ReTo Eco-Solutions. He graduated in Ship Internal Combustion Engine Direction from Dalian University of Technology in 1983.

**Xingchun Wang.** Mr. Wang has served as the Chief Financial Officer of ReTo Eco-Solutions since November 2019. Additionally, Mr. Wang served as an independent director of ReTo Eco-Solutions from November 2016 to November 2019. Since November 2015, Mr. Wang has been the general manager of the investment development department of Chengzhi Shareholding Co., Ltd, a Shenzhen Stock Exchange listed company (stock code: 000990). Between May 2014 and October 2015, Mr. Wang served as the deputy general manager and secretary to the board of Beijing Huaxiang Lianxin Technology Co., Ltd. Between June 2010 and April 2014, Mr. Wang worked as Chief Financial Officer, director and secretary to the board of Beijing Dongbiao Electric Shareholding Co., Ltd. Between May 2009 and June 2010, Mr. Wang worked as the deputy general manager of Beijing Qinchuan Dadi Investment Co., Ltd. Mr. Wang is a member of China Certified Public Accountants and a member of China Certified Tax Accountant. Mr. Wang holds a Bachelor's Degree in Accounting from Shanxi Finance and Economic College, and a Master's Degree in Economics from Northwest University of Politics and Law. Mr. Wang was nominated as a director because of his knowledge in accounting, investments and management.

**Zhi Li.** Dr. Li has served as an independent director of ReTo Eco-Solutions since November 2016. Since December 2013, Dr. Li has been vice president and director of risk management of Heling Investment Management Beijing Co., Ltd. Between June 2010 and December 2013, Mr. Li served as general manager of the forest finance and international business department of China Forestry Equity Exchange. Between April 2004 and June 2010, Dr. Li worked as deputy director of China Zhongrui Yuehua Accounting Firm. Between September 2002 and March 2004, Dr. Li was a visiting scholar of the business school of Columbia University. Dr. Li is a member of China Certified Public Accountants. Mr. Li holds a Ph.D in Economics from Xiamen University. Dr. Li was nominated as a director because of his experience in accounting, economics and management.



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**Sophia Liu.** Ms. Liu has served as an independent director of ReTo Eco-Solutions since November 2016. Since 2016 Ms. Liu has been the Chief Financial Officer of SM Financial. From January 2012 to January 2016, Ms. Liu was the assistant vice president of corporate finance of Alexandria Real Estate Equities Inc. (NYSE: ARE). Between April 2010 and January 2012, Ms. Liu served as assistant vice president of internal audit of East West Bank (NYSE: EWBC). Between December 2004 and April 2010, Ms. Liu worked as manager for the assurance advisory business services of Ernst & Young, LLP. Ms. Liu is a member of American Institute of Certified Public Accountants (AICPA). Ms. Liu received her Master's Degree in Accounting from University of Southern California. Ms. Liu was nominated as a director because of her experience in accounting and auditing.

**Austin Huang.** Dr. Huang has served as an independent director of ReTo Eco-Solutions since November 2016. Dr. Huang has served as the Principal Engineer for Merit Engineering, Inc. since 1993. Among other awards, Mr. Huang has received the Diplomat of Geotechnical Engineering by the Academy of Geoprosessionals in 2011 and named a Fellow, ACCE (American Society of Civil engineering) in 2007. Mr. Huang has served as an expert witness on geo-retaining wall design issues. In addition, he has presented two papers in the area of slope stability and pile foundations with socket in bedrock in international conferences. He holds 19 research publications including six in leading research journals. Dr. Huang holds a Master's Degree and Ph.D. in Geotechnical Engineering from University of Wisconsin. Dr. Huang was nominated as a director because of his experience in geotechnical engineering, including, slope stability, soil infiltration and retaining walls that are areas applicable to our sponge city projects.

**Shuhua Ma.** Dr. Ma has served as an independent director of ReTo Eco-Solutions since 2020. Dr. Ma is currently a Professor, Institute of Process Engineering at the China Academy of Sciences (the "Academy"), where she oversees 6 Ph.D. students, 25 Master's students and 1 Post-Doctorate student. From 2011 to 2016 she was an Associate Professor at the Academy and from 2009-2010 an Assistant Professor at the Academy. In addition, from 1992-2001 she was a Design Engineer at the Institute of Design and Research, Hebei Province, Shijiazhuang Fertilizer Plant. She obtained her Bachelor of Science in chemical engineering from Hebei University of Sciences and Technology in 1992, and obtained her Master's of Science in chemical engineering from Beijing University of Chemical Technology in 2004. In addition, she received her Ph.D. in 2007 from the Academy. Dr. Ma has published 59 papers, including 25 in the Science Citation Index (SCI). She has applied for 38 patents, 21 of which were approved. Among other associations, she is an expert in the Academic Committee of Coal Ash ASIA, a member of the Coal Gangue and Geopolymer Committees of the Solid Waste Utilization Division of the Chinese Ceramic Society and Expert in the Academic Committee of China Tailing Network. Dr. Ma was nominated as a director due to her vast knowledge in engineering and the reuse of industrial solid waste.

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

## **B. Compensation.**

### **Executive Compensation**

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

In 2020, we expensed an aggregate of approximately \$472,952 as salaries, bonuses and fees to our senior officers named in this annual report. Other than salaries, fees and share incentives, we do not otherwise provide pension, retirement or similar benefits to our officers and directors.

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### **Director Compensation**

Officers are elected by and serve at the discretion of the Board of Directors. Employee directors do not receive any compensation for their services on the Board of Directors. Non-employee directors are entitled to receive \$10,000 per year for serving as directors and may receive stock grants pursuant to the 2018 Share Incentive Plan. In addition, non-employee directors are entitled to receive compensation for their actual travel expenses for each Board of Directors meeting attended, up to a maximum of \$2,000 per meeting and \$4,000 per year.

During the fiscal year ended December 31, 2020, the Company issued an aggregate of 975,000 common shares pursuant to the 2018 Share Incentive Plan.

#### **C. Board Practices.**

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

### **Composition of Board**

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

The directors are divided into three classes, as nearly equal in number as the then total number of directors permits. All directors hold office until the next annual meeting of shareholders at which their respective class of directors is re-elected and until their successors have been duly elected and qualified. Officers are elected by and serve at the discretion of the board of directors. Class A directors shall face re-election at our 2020 annual general meeting of shareholders and shall face reelection every three years thereafter. Class B directors shall face re-election at our 2021 annual general meeting of shareholders and every three years thereafter. Class C directors shall face re-election at our 2022 annual general meeting of shareholders and every three years thereafter.

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

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

The board of directors maintains a majority of independent directors who are deemed to be independent under the definition of independence provided by NASDAQ Stock Market Rule 4200(a)(15). Shuhua Ma, Zhi Li, Sophia Liu and Austin Huang are our independent directors.

There are no other arrangements or understandings pursuant to which our directors are selected or nominated. We do not have any service contracts with our directors that provide for benefits upon termination of employment.

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

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## Board Committees

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

Shuhua Ma and Zhi Li serve on all three committees, Austin Huang serves on the nominating and compensation committee, Sophia Liu serves on the audit committee. At this time, Shuhua Ma chairs the nominating committee; Sophia Liu chairs the audit committee; and Austin Huang chairs the compensation committee. Sophia Liu qualifies as an “audit committee financial expert” as that term is defined by the applicable SEC regulations and Nasdaq Capital Market corporate governance requirements.

## Duties of Directors

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

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

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

## Interested Transactions

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

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## Remuneration and Borrowing

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

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

## Qualification

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

## Limitation on Liability and Other Indemnification Matters

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

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

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

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

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#### **D. Employees.**

##### **Our Employees**

As of May, 2021, we employed 139 people on a full-time basis. We have 11 employees in management, 14 employees in sales and marketing, 9 employees in research and development, 48 employees in manufacturing and installation and 35 employees in administration. 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. In 2020, we contributed approximately \$257,316 to the employee benefit plans and social insurance. In 2019, we contributed approximately \$470,267 to the employee benefit plans and social insurance. The effect on our liquidity by the payments for these contributions is immaterial. We believe that we are in material compliance with the relevant PRC employment laws.

##### **Employment Agreements**

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

Our employment agreements with our executive officers generally provide for a term of three years, provided that either party may terminate the agreement on 60 days' notice and a salary to be paid monthly, subject to certain limitations. The agreements also provide that the executive officers are to work an average of 40 hours per week and are entitled to all legal holidays as well as other paid leave in accordance with Chinese laws and regulations and our internal work policies. Under such agreements, our executive officers may be terminated for cause without further compensation. During the agreement and for three years afterward, our executive officers are required to keep trade secrets confidential.

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

##### ***Employment Agreement of Hengfang Li***

The Company entered into an employment agreement with Mr. Li on January 22, 2020, providing for Mr. Li to serve as the Company's Chairman and CEO (the "Li Employment Agreement"). Pursuant to the terms of the Li Employment Agreement, Mr. Li is required to devote a minimum of forty hours per week to the Company's business and affairs and in return will be entitled to annual compensation of RMB 800,000 (approximately \$117,000). The Li Employment Agreement is for an initial term of two years and is subject to renewal. In addition, Mr. Li is entitled to receive an aggregate of 450,000 common shares of the Company in accordance with the terms of its 2018 Share Incentive Share Plan (the "2018 Plan"). The 450,000 common shares will be issued as follows: (1) in the event Mr. Li is still employed by the Company, on February 15, 2020, the Company will issue 225,000 common shares to Mr. Li; and (2) the remaining 225,000 common shares will be issued on January 15, 2021, in the event Mr. Li is still an employee of the Company on that date.

Additionally, the Li Employment Agreement provides for confidentiality and nondisclosure provisions, whereby Mr. Li is required to keep trade secrets confidential during the course of his employment.

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#### ***Employment Agreement of Guangfeng Dai***

The Company entered into an employment agreement with Mr. Dai on January 22, 2020 providing for Mr. Dai to serve as the Company's President (the "Dai Employment Agreement"). Pursuant to the terms of the Dai Employment Agreement, Mr. Dai is required to devote a minimum of forty hours per week to the Company's business and affairs and in return will be entitled to annual compensation of RMB 750,000 (approximately \$109,000). The Dai Employment Agreement is for an initial term of two years and is subject to renewal. In addition, Mr. Dai is entitled to receive an aggregate of 300,000 common shares of the Company in accordance with the terms of its 2018 Plan. The 300,000 common shares will be issued as follows: (1) in the event Mr. Dai is still employed by the Company, on February 15, 2020 the Company will issue 150,000 common shares to Mr. Dai; and (2) the remaining 150,000 common shares will be issued on January 15, 2021, in the event Mr. Dai is still an employee of the Company on that date.

Additionally, the Dai Employment Agreement provides for confidentiality and nondisclosure provisions, whereby Mr. Dai is required to keep trade secrets confidential during the course of his employment.

#### ***Employment Agreement of Zhizhong Hu***

The Company entered into an employment agreement with Mr. Hu on January 22, 2020, providing for Mr. Hu to serve as the Company's Chief Technology Officer (the "Hu Employment Agreement"). Pursuant to the terms of the Hu Employment Agreement, Mr. Hu is required to devote a minimum of forty hours per week to the Company's business and affairs and in return will be entitled to annual compensation of RMB 700,000 (approximately \$102,000). The Hu Employment Agreement is for an initial term of two years and is subject to renewal. In addition, Mr. Hu is entitled to receive an aggregate of 250,000 common shares of the Company in accordance with the terms of its 2018 Plan. The 250,000 common shares will be issued as follows: (1) in the event Mr. Hu is still employed by the Company, on February 15, 2020, the Company will issue 125,000 common shares to Mr. Hu; and (2) the remaining 125,000 common shares will be issued on January 15, 2021, in the event Mr. Hu is still an employee of the Company on that date.

Additionally, the Hu Employment Agreement provides for confidentiality and nondisclosure provisions, whereby Mr. Hu is required to keep trade secrets confidential during the course of his employment.

#### ***Employment Agreement of Degang Hou***

The Company entered into an employment agreement with Mr. Hou on January 22, 2020 providing for Mr. Hou to serve as the Company's Chief Internal Control Officer (the "Hou Employment Agreement"). Pursuant to the terms of the Hou Employment Agreement, Mr. Hou is required to devote a minimum of forty hours per week to the Company's business and affairs and in return will be entitled to annual compensation of RMB 700,000 (approximately \$102,000). The Hou Employment Agreement is for an initial term of two years and is subject to renewal. In addition, Mr. Hou is entitled to receive an aggregate of 250,000 common shares of the Company in accordance with the terms of its 2018 Plan. The 250,000 common shares will be issued as follows: (1) in the event Mr. Hou is still employed by the Company, on February 15, 2020, the Company will issue 125,000 common shares to Mr. Hou; and (2) the remaining 125,000 common shares will be issued on January 15, 2021, in the event Mr. Hou is still an employee of the Company on that date.

Additionally, the Hou Employment Agreement provides for confidentiality and nondisclosure provisions, whereby Mr. Hou is required to keep trade secrets confidential during the course of his employment.

### ***Employment Agreement with Xingchun Wang***

The Company entered into an employment agreement with Mr. Wang on November 20, 2019 providing for Mr. Wang to serve as the Company's CFO (the "Wang Employment Agreement"). Pursuant to the terms of the Wang Employment Agreement, Mr. Wang is required to devote a minimum of forty hours per week to the Company's business and affairs and in return will be entitled to annual compensation of RMB 240,000 (approximately \$36,000). The Employment Agreement is for an initial term of three years and is subject to renewal.

Additionally, the Employment Agreement provides for confidentiality and nondisclosure provisions, whereby Mr. Wang is required to keep trade secrets confidential during the course of his employment.

### ***E. Share Ownership.***

The following tables set forth certain information with respect to the beneficial ownership of our common shares as of March 13, 2020, for:

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

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

Applicable percentage ownership prior is based on 25,135,000 common shares outstanding as of the date of this annual report. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o ReTo Eco-Solutions, Inc., Building X-702, 60 Anli Road, Beijing, People's Republic of China 100101.

<b>Name of Beneficial Owner</b>	<b>Beneficial Ownership</b>	
	<b>Common Shares</b>	<b>Percentage</b>
<b>Directors and Executive Officers</b>		
Hengfang Li <sup>(1)</sup>	3,995,250	16.55%
Guangfeng Dai <sup>(2)</sup>	930,632	3.70%
Zhizhong Hu <sup>(3)</sup>	905,632	3.60%
Degang Hou	125,000	*
Xingchun Wang	20,000	*
Zhi Li	20,000	*
Sophia Liu	20,000	*
Austin Huang	20,000	*
Shuhua Ma	0	0
<b>All directors and executive officers as a group</b>	<b>6,036,514</b>	<b>24.02%</b>

\* Less than 1%.

<sup>(1)</sup> Chairman and Chief Executive Officer. Includes: (i) 225,000 shares held personally (ii) sole power to direct the voting and/or disposition of (a) 10,000 common shares held by Soothie Holdings Limited, a British Virgin Islands limited liability company controlled by Mr. Li; (b) 2,198,986 common shares held by 5 investors pursuant to a proxy voting agreement; and (c) 40% of the 3,903,161 shares held by REIT International Development (Group) Co., Limited, a Hong Kong Limited Liability company of which Mr. Li owns 40%.

<sup>(2)</sup> Includes: (i) 150,000 shares owned personally; and (ii) 20% of the 3,903,161 shares held by REIT International Development (Group) Co., Limited, a Hong Kong Limited Liability company in which Mr. Dai owns 20% of the Company.

<sup>(3)</sup> Includes: (i) 125,000 shares owned personally; and (ii) 20% of the 3,903,161 shares held by REIT International Development (Group) Co., Limited, a Hong Kong Limited Liability company of which Mr. Hu owns 20%.

## 2018 Share Incentive Plan

On November 6, 2018, the Company's shareholders approved the 2018 Plan. The 2018 Plan allows for issuance of up to 2,000,000 shares of the Company's Common Shares to employees, non-employee directors, officers and consultants for services rendered to the Company.

The Company issued an aggregate of 975,000 common shares as of December 31, 2021. As of the current date, there are 1,025,000 shares available for issuance under the 2018 Incentive Plan

## Item 7. Major Shareholders and Related Party Transactions

### A. Major Shareholders.

The following tables set forth certain information with respect to the beneficial ownership of our common shares as of October 29, 2020, for:

- each stockholder known by us to be the beneficial owner of more than 5% of our outstanding common shares.

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

Applicable percentage ownership is based on 24,135,000 common shares outstanding as of the date of this annual report. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o ReTo Eco-Solutions, Inc., Building X-702, 60 Anli Rd., Beijing, People's Republic of China 100101.

Name of Beneficial Owner	Beneficial Ownership	
	Common Shares	Percentage
Other 5% or greater beneficial owners		
REIT International Development (Group) Co., Limited <sup>(1)</sup>	3,903,161	15.53%
Good Venture Industrial Limited <sup>(2)</sup>	1,750,000	6.96%
Hao Guan	1,650,000	6.56%
Other 5% or greater beneficial owners as a group	7,303,161	29.06%

<sup>(1)</sup> Represents 3,903,161 shares directly held by REIT International Development (Group) Co, a Hong Kong limited liability company whose shareholders include Mr. Hengfang Li (40%), Guangfeng Dai (20%), and Zhizhong Hu (20%). Mr. Li, Dai, and Hu hold 40%, 20%, and 20%, respectively, voting and investment power over the shares held. These are the same shares reflected as owned by Messrs. Li, Dai and Hu in the director and officer shareholder table above.

<sup>(2)</sup> Represents 1,750,000 shares directly held by Good Venture Industrial Limited, a Hong Kong limited liability company controlled by Feng Wu.



## B. Related Party Transactions.

The Company records transactions with various related parties. These related party balances as of December 31, 2020, 2019 and 2018 and transactions for the years ended December 31, 2020, 2019 and 2018 are identified as follows:

### (1) Related parties with transactions and related party relationships

Name of Related Party	Relationship to the Company
Mr. Hengfang Li	CEO and Chairman of the Board of Directors
Ms. Hong Ma	Wife of the CEO
Reto International Trading Co. Ltd	The owner of the entity holds more than 5% of the Company's outstanding common stock
Q Green Techcon Private Limited	Owned by the minority Shareholder of REIT India
Shexian Ruibo Environmental Science and Technology Co., Ltd.	The owner of the entity holds more than 5% of the Company's outstanding common stock
Zhongrong Honghe Eco Construction Materials Co., Ltd	An entity controlled by the CEO's wife
Changjiang Zhongrong Hengde Environmental Protection Co., Ltd.	An entity controlled by the CEO's wife
Hunyuan Baiyang Food Co., Ltd.	An entity controlled by the CEO

### (2) Due to related parties

As of December 31, 2020 and 2019, the balance of due to related parties were as follows:

	December 31, 2020	December 31, 2019
Mr. Hengfang Li	\$ 764,533	405,222

Mr. Hengfang Li is the Chief Executive Officer ("CEO") and major shareholder of the Company. Mr. Li periodically provides working capital loans to support the Company's operations when needed. Such advance was non-interest bearing and due on demand.

### (3) Accounts receivable from related parties

Accounts receivable from related party consisted of the following:

	December 31, 2020	December 31, 2019
Accounts receivable – related party		
- Reto International Trading Co. Ltd	\$ 202,074	\$ 469,474
Total accounts receivable from related party	\$ 202,074	\$ 469,474

The Company fully collected the December 31, 2020 accounts receivable from related parties as of the date of this report.

**(4) Advance to supplier, related party**

Advance to suppliers, related party, consisted of the following:

	December 31, 2020	December 31, 2019
Advance to supplier – related party		
- Q Green Techcon Private Limited	\$ 162,014	\$ -
Shexian Ruibo Environmental Science and Technology Co., Ltd.	3,872,110	-
Total	\$ 4,034,124	\$ -

**(5) Accounts payable to related party**

Accounts payables to related parties consisted of the following:

	December 31, 2020	December 31, 2019
Accounts payable – related parties		
- Q Green Techcon Private Limited	\$ -	\$ 1,361,253
- Shexian Ruibo Environmental Science and Technology Co., Ltd.	153,344	123,796
Total	\$ 153,344	\$ 1,485,049

**(6) Sales to related parties**

Sales to related parties consisted of the following:

	For the years ended December 31,		
	2020	2019	2018
Sales to related parties			
Zhongrong Honghe Eco Construction Materials Co., Ltd	\$ -	\$ -	\$ 56,767
Changjiang Zhongrong Hengde Environmental Protection Co., Ltd.	-	-	233,559
Hunyuan Baiyang Food Co., Ltd.	-	83,972	-
Reto International Trading Co. Ltd.	-	-	1,139,440
Shexian Ruibo Environmental Science and Technology Co., Ltd.	228,814	-	-
Total	\$ 228,814	\$ 83,972	\$ 1,940,811

Cost of revenue associated with the sales to these related parties amounted to \$148,034 \$54,598 and \$1,372,302 for the years ended December 31, 2020, 2019, and 2018, respectively.

**(7) Purchases from related parties**

Purchases from related parties consisted of the following:

	For the years ended December 31,		
	2020	2019	2018
Purchase from a relate party			
Shexian Ruibo Environmental Science and Technology Co., Ltd.	\$ 1,837,841	\$ -	\$ 5,843,564
Q Green Techcon Private Limited.	1,039,152	2,021,934	-
Total	\$ 2,876,993	\$ 2,021,934	\$ 5,843,564

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**(8) Loan guarantees provided by related parties**

The Company's principal shareholders also provide personal guarantees for certain of the Company's short-term loans and long-term bank loans..

**(9) Guarantees provided to related parties**

As disclosed in Note 17 above, on March 17, 2017, Reit Changjiang entered into a guarantee agreement to guarantee the payment obligations of the Company's related party, Changjiang Zhongrong Hengde Environmental Protection Co., Ltd., to Changjiang Li Autonomous County Rural Credit Cooperatives. The guaranteed principal creditor's right is approximately \$3.8 million (RMB 25,000,000). The guarantee was still effective as of December 31, 2020

**(10) Other related party transactions**

**Item 8. Financial Information**

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

See information provided in response to Item 18 below.

**Legal and Administrative Proceedings**

In the ordinary course of business, the Company is from time to time involved in legal proceedings and litigation that are generally contractual in nature. Currently, Beijing REIT is the defendant in a lawsuit in which the plaintiff is seeking RMB 656,000 from Beijing REIT (approximately \$101,000), a judgment for first instance was entered against Beijing REIT, which it has filed an appeal. The appeals court made a rule to revoke the judgment of the trial court and the case was ordered to be retried by the trial court. As of the date of this annual report, the case has gone through two trials after being returned for retrial, but no judgment has been made yet. As a result, we believe this lawsuit is not a material lawsuit and will not have a material adverse effect on the Company.

In 2018 a financial intermediary and REIT Xinyi began negotiations towards a potential cooperation where the financial intermediary would introduce potential investors to facilitate investment in REIT Xinyi's business. In December 2018, an investor invested 1,000,000 RMB (approximately \$0.15 million) in REIT Xinyi through this financial intermediary. REIT Xinyi rejected this investment and returned the total investment funds it received to the investor and informed the financial intermediary to cease facilitating investments from other investors. In addition, despite there not being a final mutual agreement between the parties, it appears the financial intermediary may have acquired investment funds in the aggregate amount of 15,450,000 RMB (approximately \$2.15 million) from certain investors, and REIT Xinyi did not receive any funds from these investments.

Mr. Hengfang Li, the Company's CEO has agreed to assume full responsibility for liabilities, if any, and assume the creditor's rights for these claims on behalf of the Company for any legal claims or lawsuits against the Company due to these investments. As of the date of this annual report, REIT Xinyi had been involved in one lawsuit as defendant regarding the above investments with the claim amount of RMB 300,000 (approximately \$44,000), the total amount of which was repaid by Hengfang Li in May 2020. Accordingly, at this time, the Company believes that any ultimate liability resulting from the outcome of such proceedings, if there are any, will not have a material adverse effect on the Company's consolidated financial position or results of operations or liquidity.

As of December 31, 2020, the Company had two outstanding lawsuits regarding quality disputes on equipment and machinery sold to two customers, with estimated liability in the aggregate amount of \$0.2 million (or RMB1.3 million). The Court has not issued final judgments in these pending legal proceedings as of the date of this annual report. However, there is an uncertainty of the likelihood the Company will prevail in the lawsuits. As a result, the Company accrued loss contingency of \$0.2 million on these pending legal proceedings, which has been reflected in the Company's consolidated financial statements for the year ended December 31, 2020.

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## Dividend Policy

We have never declared or paid any cash dividends on our common shares. 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.

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 Beijing REIT, REIT Ecological and REIT Yancheng. Current Chinese regulations permit our China Operating Companies to pay dividends to REIT Holdings only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Further, two loans governing part of the current debts incurred by Beijing REIT and REIT Changjiang have restrictions on their abilities to pay dividends, and any future financing arrangements may impose such restrictions as well. 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. Our China Operating Companies are 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. Our subsidiaries in China are required to set aside statutory reserves and have done so.

In addition, pursuant to the China Enterprise Income Tax Law (“EIT Law”) and its implementation rules, dividends generated after January 1, 2008 and distributed to us by Beijing REIT, REIT Ecological and REIT Yancheng are subject to withholding tax at a rate of 10% unless otherwise exempted or reduced according to treaties or arrangements between the Chinese central government and governments of other countries or regions where the non-Chinese-resident enterprises are incorporated.

Under existing Chinese 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 the operations in China may be used to pay dividends to our company. See “Regulation—Regulation of Foreign Currency Exchange and Dividend Distribution.”

### **B. Significant Changes.**

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

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## Item 9. The Offer and Listing

### A. Offer and listing details.

Our common shares have been listed on the NASDAQ Capital Market since November 29, 2017 under the symbol “RETO.”

### B. Plan of distribution.

Not applicable for annual reports on Form 20-F.

### C. Markets.

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

### D. Selling shareholders.

Not applicable for annual reports on Form 20-F.

### E. Dilution.

Not applicable for annual reports on Form 20-F.

### F. Expense and issue.

Not applicable for annual reports on Form 20-F.

## Item 10. Additional Information

### A. Share Capital.

Not applicable for annual reports on Form 20-F.

### B. Memorandum and Articles of Association.

We incorporate by reference the description of our Memorandum and Articles of Association, as currently in effect in the British Virgin Islands, set forth in our registration statement on Form F-1, declared effective on November 28, 2017 (File No. 333-219709).

### C. Material Contracts.

#### Securities Purchase Agreement dated March 1, 2021

On March 1, 2021, the Company entered into a securities purchase agreement (the “Agreement”) with an accredited investor (the “Debenture Holder”) to place a Convertible Debenture (the “Debenture”) with a maturity date of twelve months after the issuance thereof in the aggregate principal amount of up to \$2,300,000 (the “Transaction”), provided that in case of an event of default, the Debenture may become at the Debenture Holder’s election immediately due and payable. In addition, the Company paid to an affiliate of the Debenture Holder a fee equal to 3.5% of the amount of the Debenture and a one-time due diligence and structuring fee of \$10,000 at the closing.

The Debenture Holder may convert the Debenture in its sole discretion to Company’s common shares at any time at the lower of \$2.50 or 95% of the average of the two lowest daily VWAPs during the ten consecutive trading days immediately preceding the conversion date, provided that the conversion price may not be less than \$0.50 (the “Floor Price”). The Debenture Holder may not convert any portion of a Debenture if such conversion would result in the Debenture Holder beneficially owning more than 4.99% of Company’s then issued and common shares, provided that such limitation may be waived by the Debenture Holder with 65 days’ notice. Any time after the issuance of a Debenture that the daily VWAP is less than the Floor Price for a period of 10 consecutive trading days (each such occurrence, a “Triggering Event”) and only for so long as such conditions exist after a Triggering Event, the Company shall make monthly payments beginning on the 30<sup>th</sup> day after the date of the Triggering Event. Each monthly payment shall be in an amount equal to the sum of (i) the principal amount outstanding as of the date of the Triggering Event divided by the number of such monthly payments until maturity, (ii) a redemption premium of 20% of such principal amount and (iii) accrued and unpaid interest hereunder as of each payment date.

#### Consulting Agreement

On April 21, 2021, the Company entered into certain three year consulting agreement with Geniusland International Capital Ltd. in connection with Company’s corporate strategy on the Nasdaq Stock Market. Pursuant to the agreement, the Company issued an aggregate of 1,000,000 ordinary shares to Geniusland International Capital Ltd. and its designees for services rendered.

Other than those set forth above and those described elsewhere in this annual report, we did not have any other material contracts.

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#### **D. Exchange Controls.**

##### **Foreign Currency Exchange**

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations (1996), as amended on August 5, 2008, the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996) and the Interim Measures on Administration on Foreign Debts (2003). Under these regulations, Renminbi are freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for most capital account items, such as direct investment, loans, repatriation of investment and investment in securities outside China, unless the prior approval of SAFE or its local counterparts is obtained. In addition, any loans to an operating subsidiary in China that is a foreign invested enterprise, cannot, in the aggregate, exceed the difference between its respective approved total investment amount and its respective approved registered capital amount. Furthermore, any foreign loan must be registered with SAFE or its local counterparts for the loan to be effective. Any increase in the amount of the total investment and registered capital must be approved by the China Ministry of Commerce or its local counterpart. We may not be able to obtain these government approvals or registrations on a timely basis, if at all, which could result in a delay in the process of making these loans.

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

On August 29, 2008, SAFE issued 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, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency-registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular 142 provides that the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within China. SAFE also strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of foreign-invested enterprises. The use of such RMB capital may not be changed without SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. On March 30, 2015, SAFE issued SAFE Circular 19, which took effective and replaced SAFE Circular 142 on June 1, 2015. Although SAFE Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in China, the restrictions continue to apply as to foreign-invested enterprises' use of the converted RMB for purposes beyond the business scope, for entrusted loans or for inter-company RMB loans. 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 or SAFE Circular 16 could result in administrative penalties.

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On November 19, 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts (e.g., pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts), the reinvestment of lawful incomes derived by foreign investors in China (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment), and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign-invested enterprise no longer require SAFE approval, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible before. In addition, SAFE promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents in May 2013, which specifies that the administration by SAFE or its local departments over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in China based on the registration information provided by SAFE and its local departments.

On February 13, 2015, SAFE promulgated the Circular on Further Simplifying and Improving the Policies Concerning Foreign Exchange Control on Direct Investment, or SAFE Circular 13, which took effect on June 1, 2015. SAFE Circular 13 delegates the authority to enforce the foreign exchange registration in connection with the inbound and outbound direct investment under relevant SAFE rules to certain banks and therefore further simplifies the foreign exchange registration procedures for inbound and outbound direct investment.

#### **Circular 37**

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

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

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

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

According to the Implementation Rules for the Provisional Regulations on Statistics and Supervision of Foreign Debt promulgated by SAFE on September 24, 1997 and the Interim Provisions on the Management of Foreign Debts promulgated by SAFE, the NDRC and the MOFCOM and effective from March 1, 2003, loans by foreign companies to their subsidiaries in China, which accordingly are FIEs, are considered foreign debt, and such loans must be registered with the local branches of the SAFE. Under the provisions, the total amount of accumulated medium-term and long-term foreign debt and the balance of short-term debt borrowed by a FIE is limited to the difference between the total investment and the registered capital of the foreign-invested enterprise.

On January 12, 2017, the People's Bank of China promulgated the Circular of the People's Bank of China on Matters relating to the Macro-prudential Management of Comprehensive Cross-border Financing, or PBOC Circular 9, which took effect on the same date. The PBOC Circular 9 established a capital or net assets-based constraint mechanism for cross-border financing. Under such mechanism, a company may carry out cross-border financing in Renminbi or foreign currencies at their own discretion. The total cross-border financing of a company shall be calculated using a risk-weighted approach and shall not exceed an upper limit. The upper limit is calculated as capital or assets multiplied by a cross-border financing leverage ratio and multiplied by a macro-prudential regulation parameter.

In addition, according to PBOC Circular 9, as of the date of the promulgation of PBOC Circular 9, a transition period of one year is set for foreign-invested enterprises and during such transition period, FIEs may apply either the current cross-border financing management mode, namely the mode provided by Implementation Rules for the Provisional Regulations on Statistics and Supervision of Foreign Debt and the Interim Provisions on the Management of Foreign Debts, or the mode in this PBOC Circular 9 at its sole discretion. After the end of the transition period, the cross-border financing management mode for FIEs will be determined by the People's Bank of China and SAFE after assessment based on the overall implementation of this PBOC Circular 9.

According to applicable PRC regulations on FIEs, capital contributions from a foreign holding company to its PRC subsidiaries, which are considered FIEs, may only be made when approval by or registration with the MOFCOM or its local counterpart is obtained.

### **Regulation of Dividend Distribution**

The principal regulations governing the distribution of dividends by foreign holding companies include the Company Law of China (1993), as amended in 2013, the Foreign Investment Enterprise Law (1986), as amended in 2000, and the Administrative Rules under the Foreign Investment Enterprise Law (1990), as amended respectively in 2001 and 2014.

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



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## E. Taxation.

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

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

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

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

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

## China Enterprise Income Tax

According to the Enterprise Income Tax Law of China (the “EIT Law”), which was promulgated by the Standing Committee of the National People’s Congress on March 16, 2007 (effective as of January 1, 2008 and was last amended on February 24, 2017 (effective on the same day) and on December 29, 2018 (effective on the same day), respectively. The income tax for both domestic and foreign-invested enterprises on their global income is at a uniform rate of 25%, unless they qualify for certain exceptions. The Regulation on the Implementation of Enterprise Income Tax Law of China (the “EIT Rules”) was promulgated by the State Council on December 6, 2007 and became effective on January 1, 2008 and partly amended on April 23, 2019 further clarifies the calculation of the income tax on different types of incomes and permit certain “high and new technology enterprises strongly supported by the state” that independently own core intellectual property and meet statutory criteria, to enjoy a reduced 15% enterprise income tax rate.

On January 29, 2016, the Chinese Ministry of Science and Technology, Ministry of Finance and State Administration of Taxation enacted the Administrative Measures for Certifying High and New Technology Enterprises (2016 Version) (the “Certifying Measures”), which retroactively became effective on January 1, 2016. Under the EIT Law and the Certifying Measures, certain qualified high-tech companies may benefit from a preferential tax rate of 15% if they own their core intellectual properties and are classified into certain industries strongly supported by the Chinese government and set forth by certain departments of the Chinese State Council. Beijing REIT was granted the high and new technology enterprise (“HNTE”) qualification valid until December 2019. There can be no assurance, however, that Beijing REIT will continue to meet the qualifications for such a reduced tax rate. In addition, there can be no guaranty that relevant governmental authorities will not revoke Beijing REIT’s “high and new technology enterprise” status in the future.

Pursuant to Circular of the State Administration of Taxation on Printing and Distributing the Implementing Measures for Special Tax Adjustments (for Trial Implementation), effective on January 1, 2008, enterprises shall adopt a reasonable transfer pricing method when conducting transactions with their affiliates. Tax authorities have the power to assess whether related transactions conform to the principle of equity and make adjustments accordingly. Therefore, the invested enterprise should faithfully report relevant information of its related transactions. Pursuant to the Announcement of the State Administration of Taxation on Issuing the Administrative Measures for Special Tax Adjustment and Investigation and Mutual Consultation Procedures, effective on May 1, 2017, an enterprise may adjust and pay taxes at its own discretion when it receives a special tax adjustment risk warning or identifies its own special tax adjustment risks, and the tax authorities may also carry out special tax investigation and adjustment in accordance with the relevant provisions in regard to enterprises that adjust and pay taxes at their own discretion.

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In January 2009, the SAT promulgated the Provisional Measures for the Administration of Withholding of Enterprise Income Tax for Non-resident Enterprises, or the Non-resident Enterprises Measures, which was repealed by Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises in December 2017. According to the new announcement, it shall apply to handling of matters relating to withholding at source of income tax of non-resident enterprises pursuant to the provisions of Article 37, Article 39 and Article 40 of the Enterprise Income Tax Law. According to Article 37, Article 39 of the Enterprise Income Tax Law, income tax over non-resident enterprise income pursuant to the provisions of the third paragraph of Article 3 shall be subject to withholding at the source, where the payer shall act as the withholding agent. The tax amount for each payment made or due shall be withheld by the withholding agent from the amount paid or payable. Where a withholding agent fails to withhold tax or perform tax withholding obligations pursuant to the provisions of Article 37, the taxpayer shall pay tax at the place where the income is derived. Where the taxpayer fails to pay tax pursuant to law, the tax authorities may demand payment of the tax amount payable, from a payer of the taxpayer with payable tax amounts from other taxable income items in China.

On April 30, 2009, the MOFCOM and the SAT jointly issued the Circular on Issues Concerning Treatment of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59, which became effective retroactively as of January 1, 2008 and was partially revised on January 1, 2014. By promulgating and implementing this circular, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a Non-resident Enterprise.

On February 3, 2015, the SAT issued the Announcement of the State Administration of Taxation on Several Issues Relating to Enterprise Income Tax of Transfers of Assets between Non-resident Enterprises, or SAT Bulletin 7, which was partially abolished on December 29, 2017. SAT Bulletin 7 extends its tax jurisdiction to transactions involving transfer of immovable property in China and assets held under the establishment, and placement in China, of a foreign company through the offshore transfer of a foreign intermediate holding company. SAT Bulletin 7 also addresses transfer of the equity interest in a foreign intermediate holding company broadly. In addition, SAT Bulletin 7 introduces safe harbor scenarios applicable to internal group restructurings. However, it also brings challenges to both the foreign transferor and transferee of the Indirect Transfer as they have to assess whether the transaction should be subject to PRC tax and to file or withhold the PRC tax accordingly.

On October 17, 2017, the SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Bulletin 37, which came into effect on December 1, 2017 and was revised on June 15, 2018. The SAT Bulletin 37 further clarifies the practice and procedure of withholding of non-resident enterprise income tax.

If non-resident investors were involved in our private equity financing, if such transactions were determined by the tax authorities to lack reasonable commercial purpose, we and our non-resident investors may be at risk of being required to file a return and be taxed under SAT Bulletin 7 and we may be required to expend valuable resources to comply with SAT Bulletin 7 or to establish that we should not be held liable for any obligations under SAT Bulletin 7.

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

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

We do not believe that we meet the conditions outlined in the preceding paragraph since ReTo does not have a Chinese enterprise or enterprise group as our primary controlling shareholder. In addition, we are not aware of any offshore holding companies with a corporate structure similar to the Company that has been deemed a China “resident enterprise” by the Chinese tax authorities.

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

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## China Value-Added Tax

The Provisional Regulations of the PRC on Value-added Tax were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994, which were subsequently amended on November 10, 2008 and came into effect on January 1, 2009 and most recently amended on November 19, 2017. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax was promulgated by the Ministry of Finance on December 25, 1993 and subsequently amended on December 15, 2008 and October 28, 2011, or collectively, VAT Law. On November 19, 2017, the State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax, or Order 691. According to the VAT Law and Order 691, all enterprises and individuals in China engaging in the sale of goods, the provision of processing, repair and assembly services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are the taxpayers of VAT. The VAT tax rates generally applicable are simplified as 17%, 11%, 6% and 0%, and the VAT tax rate applicable to the small-scale taxpayers is 3%. The amount of VAT payable is calculated as “output VAT” minus “input VAT” and the rate of VAT for the China Operating Companies is as follows: 17% for Beijing REIT; 3% for Dingxuan; 6% for REIT Eco Engineering; 6% for REIT Construction; 17% for Ruirong; 17% for Xinyi; and 17% for REIT Changjiang for sales of our goods. On April 4, 2018, Ministry of Finance and State Administration of Taxation collectively promulgated the Circular of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates, the implementation of which began on May 1, 2018, pursuant to which a taxpayer engaging in a taxable sales activity for the value-added tax purpose or imports of goods, the previous applicable 17% and 11% tax rates are adjusted to 16% and 10% respectively, and exported goods originally subject to 17% and 11% tax rates and export rebate rate, will be subject to 16 % and 10% tax rate and export rebate rate. The 16% tax rate was further reduced to 13% beginning on April 1, 2019.

## China Dividend Withholding Tax

Under the PRC tax laws effective prior to January 1, 2008, dividends paid to foreign investors by foreign-invested enterprises were exempt from PRC withholding tax. Pursuant to the EIT Law and the Implementation Rules, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign enterprise investors are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement.

Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, or the Double Tax Avoidance Arrangement came into effect on December 8, 2006, and other applicable PRC laws and regulations, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws and regulations, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. According to the Announcement of the SAT on Issuing the Measures for the Administration of Non-resident Taxpayers’ Enjoyment of Treaty Benefits effective on January 1, 2020, non-resident taxpayers can enjoy tax treaty benefits via the “self-assessment of eligibility, claiming treaty benefits, retaining documents for inspection” mechanism. Non-resident taxpayers who have self-assessed that they are eligible for the treaty benefits can claim such tax treaty benefits accordingly provided that they have collected and retained relevant supporting documents for inspection by the tax authorities in their post-filing administration process. Pursuant to the Announcement on Certain Issues with Respect to the “Beneficial Owner” in Tax Treaties, issued by the SAT on February 3, 2018, and effective on April 1, 2018, when determining an applicant’s “beneficial owner” status regarding tax treatments in connection with dividends, interests or royalties in tax treaties, several factors set forth below will be taken into account, although the actual analysis will be fact-specific: (i) whether the applicant is obligated to pay more than 50% of his or her income in 12 months to residents in a third country or region; (ii) whether the business operated by the applicant constitutes a substantial business operation; and (iii) whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate. The applicant must submit relevant documents to the competent tax authorities to prove his or her “beneficial owner” status.

## People’s Republic of China Taxation

Under the EIT Law which became effective on January 1, 2008 and was most recently amended on December 29, 2018, and the EIT Rules which became effective on January 1, 2008, the income tax for both domestic and foreign-invested enterprises is at a uniform rate of 25%, unless they qualify for certain exceptions. On January 29, 2016, the Chinese Ministry of Science and Technology, Ministry of Finance and State Administration of Taxation enacted the Administrative Measures for Certifying High and New Technology Enterprises (2016 Version), which retroactively became effective on January 1, 2016, provide that certain qualified high-tech companies may benefit from a preferential tax rate of 15% if they own their core intellectual properties and are classified into certain industries strongly supported by the Chinese government and set forth by certain departments of the Chinese State Council. Beijing REIT was granted the HNTE qualification valid for three years commencing on December 22, 2016. There can be no assurance, however, that Beijing REIT will continue to meet the qualifications for such a reduced tax rate. In addition, there can be no guaranty that relevant governmental authorities will not revoke Beijing REIT’s “high and new technology enterprise” status in the future. We are a holding company incorporated in the British Virgin Islands and we gain substantial income by way of dividends from our Chinese subsidiaries. The EIT Law and Rules provide that China-sourced income of foreign enterprises, such as dividends paid by a Chinese subsidiary to its equity holders that are non-resident enterprises, will normally be subject to Chinese withholding tax at a rate of 10%, unless any such foreign investor’s jurisdiction of incorporation has tax treaty with China that provides for a different withholding arrangement.

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### British Virgin Islands Taxation

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

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

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

### United States Federal Income Taxation

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

- a dealer in securities or currencies;
- a person whose “functional currency” is not the United States dollar;
- banks;
- financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to mark-to-market;
- U.S. expatriates;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding our common shares as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of our voting shares;
- persons who acquired our common shares pursuant to the exercise of any employee share option or otherwise as consideration; or
- persons holding our common shares through partnerships or other pass-through entities.

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

***Taxation of Dividends and Other Distributions on our Common Shares***

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

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

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

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

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### ***Taxation of Dispositions of Common Shares***

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

### ***Passive Foreign Investment Company***

Based on our current and anticipated operations and the composition of our income and assets, we do not expect to be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our current taxable year ending December 31, 2020. Our actual PFIC status for the current taxable years ending December 31, 2020 will not be determinable until after the close of such taxable years and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year. PFIC status is a factual determination for each taxable year which cannot be made until the close of the taxable year. A non-U.S. corporation is considered a PFIC for any taxable year if either:

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

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

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change. In particular, because the value of our assets for purposes of the asset test will generally be determined based on the market price of our common shares, our PFIC status will depend in large part on the market price of our common shares. Accordingly, fluctuations in the market price of the common shares may cause us to become a PFIC. In addition, the application of the PFIC rules is subject to uncertainty in several respects and the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raised in our IPO. 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.

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

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

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

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

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

#### ***Information Reporting and Backup Withholding***

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

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

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

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

**F. Dividends and Paying Agents.**

Not applicable for annual reports on Form 20-F.

**G. Statement by Experts.**

Not applicable for annual reports on Form 20-F.

**H. Documents on Display.**

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

**I. Subsidiary Information.**

Not Applicable.

**Item 11. Quantitative and Qualitative Disclosures About Market Risk**

**Interest Rate Risk**

Our main interest rate exposure relates to bank borrowings. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rates.

As of December 31, 2020, we had \$15.9 million in outstanding debt borrowings, with an effective interest rate between 5.0025%% to 19.2%. As of December 31, 2019, we had \$17.1 million in outstanding debt borrowings, with an effective interest rate between 5.0025%% to 19.2%.

As of December 31, 2020, if interest rates increased/decreased by 1%, with all other variables having remained constant, and assuming the amount of bank borrowings outstanding at the end of the year was outstanding for the entire year, profit attributable to equity owners of our Company would have been RMB 1,095,297 (\$158,599) lower/higher, respectively, mainly as a result of higher/lower interest expenses incurred on the outstanding debt borrowings.

As of December 31, 2019, if interest rates increased/decreased by 1%, with all other variables having remained constant, and assuming the amount of bank borrowings outstanding at the end of the year was outstanding for the entire year, profit attributable to equity owners of our Company would have been RMB 951,209 (\$137,735) lower/higher, respectively, mainly as a result of higher/lower interest expenses incurred on the outstanding debt borrowings.



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### ***Foreign Exchange Risk***

Our functional currency is the RMB, and our financial statements are presented in U.S. dollars. China's currency has gradually depreciated against most foreign currencies over the last few years. In 2020, the average exchange rate for US\$ against Chinese RMB has changed US\$1.00 for RMB 6.9081 in fiscal 2019 to US \$1.00 for RMB6.9042 in fiscal 2020. The exchange rate was US\$1.00 for RMB 6.5250 as of December 31, 2020. The change in the value of RMB relative to the U.S. dollar may affect our financial results reported in the U.S. dollar terms without giving effect to any underlying change in our business or results of operation. If using the average exchange rate of fiscal 2019, our revenue, cost of revenue and total expenses, including selling expenses, general administrative expenses, bad debt expense and research and development expenses, for the year ended December 31, 2020 would decrease by approximately \$3,000, \$3,000 and \$4,000, respectively.

Currently, our assets, liabilities, revenues and costs are denominated in RMB and in U.S. dollars, our exposure to foreign exchange risk will primarily relate to those financial assets denominated in U.S. dollars. Any significant revaluation of RMB against U.S. dollar may materially affect our earnings and financial position, and the value of, and any dividends payable on, our common shares in U.S. dollars in the future. See "Risk Factors — Risks Related to Doing Business in China — Fluctuations in exchange rates could adversely affect our business and the value of our securities."

### ***Credit Risk***

As of December 31, 2020, we had cash and cash equivalents of \$1.1 million. Our cash and cash equivalents are invested primarily in savings and deposit accounts with original maturities of three months or less. Savings and deposit accounts generate a small amount of interest income.

### ***Inflation Risk***

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

### ***Commodity Risk***

As a developer and manufacturer of construction materials and equipment, 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 raw material prices such as steel and cement, 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 if Items 12.D.3 and 12.D.4, this Item 12 is not applicable for annual reports on Form 20-F. As to Items 12.D.3 and 12.D.4, this Item 12 is not applicable, as the Company does not have any American Depositary Shares.

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## PART II

### Item 13. Defaults, Dividends Arrearages and Delinquencies

None.

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

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

### Item 15. Controls and Procedures

#### (a) Disclosure Controls and Procedures.

As of December 31, 2020 (the “Evaluation Date”), the Company carried out an evaluation, under the supervision of and with the participation of management, including the Company’s chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on the foregoing, the chief executive officer and chief financial officer concluded that as of the Evaluation Date the Company’s disclosure controls and procedures were ineffective and designed to ensure that all material information required to be included in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decision regarding required disclosure.

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

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. In making this assessment, management used the framework set forth in the report Internal Control – Integrated framework issued in 2013 by the Committee of Sponsoring Organization of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company’s internal control system, including (1) the control environment, (2) risk assessment, (3) control activities, (4) information and communication and (5) monitoring.

Based on that evaluation, management concluded that these controls were ineffective at December 31, 2020.

#### (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 December 31, 2020, the Company has completed certain reviews 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 personnel 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, hiring external financial consultants with experience in U.S. GAAP and SEC reporting obligations, 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, implementing regular and continuous U.S. GAAP accounting and financial reporting training programs for our accounting and financial reporting personnel; and 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.

### Item 16. [Reserved]

#### Item 16A. Audit Committee and Financial Expert

The Company’s Board of Directors has determined that Ms. Sophia Liu qualifies as an “audit committee financial expert” in accordance with applicable NASDAQ Capital Market standards. The Company’s Board of Directors has also determined that Ms. Liu and the other members of the Audit Committee are all “independent” in accordance with the applicable NASDAQ Capital Market standards.

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## Item 16B. Code of Ethics

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

## Item 16C. Principal Accountant Fees and Services

### *Audit Fees*

During fiscal 2020 and 2019, YCM CPA Inc. AND Friedman LLP's fees for the annual audit of our financial statements and the periodic reviews of the financial statements were \$160,000 and \$270,000, respectively.

### *Audit-Related Fees*

During fiscal 2020 and 2019, the Company paid YCM, Inc. and Friedman LLP \$0 and \$0 respectively for audit-related services for services rendered in connection with financial due diligence of the Company in connection with the Company's initial public offering.

### *Tax Fees*

The Company has not paid YCM CPA Inc. and Friedman LLP for tax services in fiscal 2020, 2019 and 2018.

### *All Other Fees*

The Company has not paid YCM CPA Inc. and Friedman LLP for any other services in fiscal 2020, 2019 and 2018.

### *Audit Committee Pre-Approval Policies*

Before YCM CPA Inc. and Friedman 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 YCM CPA Inc. and Friedman LLP have been so approved.

## Item 16D. Exemptions form the Listing Standards for Audit Committees

Not Applicable.

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

Neither the Company nor any affiliated purchaser has purchased any shares or other units of any class of the Company's equity securities registered by the Company pursuant to Section 12 of the Securities Exchange Act during the fiscal year ended December 31, 2020.

## Item 16F. Change in Registrant's Certifying Accountant

### (1) Previous Independent Registered Public Accounting Firm

(i) On March 15, 2021, the Company dismissed its independent registered public accounting firm, Friedman LLP ("Friedman").

(ii) The report of Friedman on the financial statements of the Company for the fiscal years ended December 31, 2019 and 2018, and the related statements of operations and comprehensive income (loss), changes in shareholders' equity (deficit), and cash flows for the fiscal years ended December 31, 2019 and 2018 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles, except that the audit report on the financial statements of the Company for the year ended December 31, 2019 contained an uncertainty about the Company's ability to continue as a going concern

(iii) The decision to change the independent registered public accounting firm was recommended and approved by the Audit Committee of the Company.

(iv) From the time of Friedman's engagement up to March 15, 2021, the date of dismissal, (a) there were no disagreements with Friedman on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Friedman, would have caused it to make reference thereto in its reports on the financial statements for such years and (b) there were no "reportable events" as described in Item 304(a)(1)(v) of Regulation S-K.

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(2) New Independent Registered Public Accounting Firm

On March 15, 2021, the Audit Committee approved the appointment of YCM CPA Inc. ("YCM") as its new independent registered public accounting firm to audit and review the Company's financial statements. During the two most recent fiscal years ended December 31, 2020 and December 31, 2019 and any subsequent interim periods through the date hereof prior to the engagement of Friedman, neither the Company, nor someone on its behalf, has consulted YCM regarding:

(i) either: the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's consolidated financial statements, and either a written report was provided to the Company or oral advice was provided that the new independent registered public accounting firm concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or

(ii) any matter that was either the subject of a disagreement as defined in paragraph 304(a)(1)(iv) of Regulation S-K or a reportable event as described in paragraph 304(a)(1)(v) of Regulation S-K.

**Item 16G. Corporate Governance**

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

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

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

**Item 16H. Mine Safety Disclosure**

Not applicable.

### PART III

#### Item 17. Financial Statements

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

#### Item 18. Financial Statements

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

#### Item 19. Exhibits

##### Exhibit

1.1	<a href="#">Memorandum and Articles of Association (1)</a>
4.1	<a href="#">Translation of January 31, 2016 Equity Transfer Agreement by and between Hengfang Li and REIT Holdings (China) Limited (1)</a>
4.2	<a href="#">Translation of January 31, 2016 Equity Transfer Agreement by and between Degang Hou and REIT Holdings (China) Limited (1)</a>
4.3	<a href="#">Translation of January 31, 2016 Equity Transfer Agreement by and between Guangfeng Dai and REIT Holdings (China) Limited (1)</a>
4.4	<a href="#">Translation of January 31, 2016 Equity Transfer Agreement by and between Zhizhong Hu and REIT Holdings (China) Limited (1)</a>
4.5	<a href="#">Translation of February 2, 2015 Equity Transfer Agreement by and between Hainan Wenchang Mingsheng Investment Co., Ltd. and the shareholders of Beijing REIT Technology Development Co., Ltd (1)</a>
4.6	<a href="#">Translation of April 20, 2015 Capital Investment Agreement by and between Beijing REIT Technology Development Co., Ltd. and Venture Business International Limited (1)</a>
4.7	<a href="#">Translation of January 10, 2016 Equity Transfer Agreement by and between Beijing REIT Technology Development Co., Ltd. and Zhongrong Environmental Energy Investment (Beijing) Co., Ltd (1)</a>
4.8	<a href="#">Translation of Supplementary Agreement Establish REIT Xinyi (1)</a>
4.9	<a href="#">REIT India Joint Venture Agreement (1)</a>
4.10	<a href="#">Translation of Employment Agreement with Hengfang Li (2)</a>
4.11	<a href="#">Translation of Employment Agreement with Guangfeng Dai (2)</a>
4.12	<a href="#">Translation of Employment Agreement with Degang Hou (2)</a>
4.13	<a href="#">Translation of Employment Agreement with Zhizhong Hu (2)</a>
4.14	<a href="#">Translation of Employment Agreement with Xingchun Wang (3)</a>
4.15	<a href="#">Translation of September 2013 mortgage agreement between REIT MingSheng Environment Protection Construction Materials (Changjiang) Co., Ltd. and Industrial and Commercial Bank of China Corp. Changjiang Branch (1)</a>

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4.16	<a href="#">Translation of Convertible Debt Investment Agreement by and between Liu Kejia, Tech Sources International Enterprises Limited, Li Hengfang, ReTo Eco-Solutions, Inc. and REIT Mingsheng Environment Protection Construction Materials (Changjiang) Co. Ltd. (1)</a>
4.17	<a href="#">Translation of Convertible Debt Investment Agreement by and between Good Venture Industrial Limited, ReTo Eco-Solutions, Inc. and REIT Holdings Co., Limited (1)</a>
4.18	<a href="#">Translation of REIT Xinyi Phase 1 Construction Agreement (1)</a>
4.19	<a href="#">Joint Patent Agreement with Luoyang Water-Conservancy Surveying &amp; Design Co., Ltd. (1)</a>
4.20	<a href="#">Translation of Indemnification Agreement for Housing Provident Fund (1)</a>
4.21	<a href="#">2018 Share Incentive Plan (4)</a>
4.22	<a href="#">Shareholder Voting Proxy Agreement (1)</a>
10.1	<a href="#">Consulting Agreement dated April 21, 2021 between the Company and Geniusland International Capital Ltd. (6)</a>
10.2	<a href="#">Securities Purchase Agreement, dated March 1, 2021 (5)</a>
10.3	<a href="#">Form of Debenture (5)</a>
10.4	<a href="#">Registration Rights Agreement, dated March 1, 2021 (5)</a>
12.1	<a href="#">Certification of the Chief Executive Officer of ReTo Eco-Solutions, Inc. pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (6)</a>
12.2	<a href="#">Certification of the Chief Executive Officer of Reto Eco-Solutions, Inc. pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (6)</a>
13.1	<a href="#">Certification of the Chief Executive Officer of ReTo Eco-Solutions, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (6)</a>
13.2	<a href="#">Certification of the Chief Financial Officer of ReTo Eco-Solutions, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (6)</a>
14.1	<a href="#">Code of Business Conduct and Ethics (1)</a>
21.1	<a href="#">List of Subsidiaries (6)</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

- (1) Filed as an exhibit to the Registrant's Registration Statement on Form F-1, as amended on Form F-1 (Registration No. 333-219709) initially filed on August 4, 2017 and hereby incorporated by reference.
- (2) Filed as an exhibit to the Registrant's Current Report on Form 6-K, filed on January 24, 2020 and hereby incorporated by reference.
- (3) Filed as a exhibit to the Registrants current report on Form 6-K filed on November 26, 2019 and hereby incorporated by reference.
- (4) Filed as part of an exhibit to the Registrant's Current Report on Form 6-K, filed on September 28, 2018 and hereby incorporated by reference.
- (5) Filed as part of an exhibit to the Registrant's Current Report on Form 6-K, filed on March 4, 2021 and hereby incorporated by reference.
- (6) Filed herewith.

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### 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.

**RETO ECO-SOLUTIONS, INC.**

By: /s/ HENGFANG LI  
Hengfang Li  
Chief Executive Officer

Date: May 14, 2021

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# **RETO ECO-SOLUTIONS INC. AND SUBSIDIARIES**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the stockholders of  
ReTo Eco-Solutions, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of ReTo Eco-Solutions, Inc. and subsidiaries (collectively, the "Company") as of December 31, 2020, and the related consolidated statements of operations and comprehensive (loss), changes in equity, and cash flows for the year ended December 31, 2020 and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### Going Concern Matter

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has suffered significant losses from operations and has a significant decrease in working capital that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. 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 audit 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 consolidated 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 audit 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 audit included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement. We believe that our audit provides a reasonable basis for our opinion.

/s/ YCM CPA, Inc.

We have served as the Company's auditor since 2021.  
Irvine, California  
May 14, 2021

# FRIEDMAN LLP<sup>®</sup>

ACCOUNTANTS AND ADVISORS

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the stockholders of  
ReTo Eco-Solutions, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of ReTo Eco-Solutions, Inc. and subsidiaries (collectively, the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

### Going Concern Matter

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has suffered significant losses from operations and has a significant decrease in working capital that raises substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated 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 audits to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated financial statement. We believe that our audits provide a reasonable basis for our opinion.

/s/ Friedman LLP

We have served as the Company’s auditor since 2015.  
New York, New York  
October 30, 2020

**RETO ECO-SOLUTIONS INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,120,840	\$ 897,281
Restricted cash	-	84,237
Accounts receivable, net – third parties	3,220,504	11,252,002
Accounts receivable, net - related party	202,074	469,474
Advances to suppliers, net – third parties	1,571,667	2,449,629
Advances to suppliers, net - related party	4,034,124	-
Inventories, net	730,207	888,203
Prepayments and other current assets	1,326,994	435,273
Prepayment for construction of properties	1,073,110	3,661,800
Current assets held for sale associated with discontinued operation of Gu'an REIT	-	5,326,348
<b>Total Current Assets</b>	<b>13,279,510</b>	<b>25,464,247</b>
Property, plant and equipment, net	35,076,952	37,457,643
Intangible assets, net	6,405,059	6,145,179
Long-term investment in equity investee	2,836,050	28,720
Right-of-use assets	376,502	505,630
Non-current assets held for sale associated with discontinued operation of Gu'an REIT	-	1,193,825
<b>Total Assets</b>	<b>\$ 57,974,073</b>	<b>\$ 70,795,244</b>
<b><u>LIABILITIES AND EQUITY</u></b>		
<b>Current Liabilities:</b>		
Short term loans	\$ 6,662,048	\$ 8,309,098
Long term bank loans - current portion	2,912,555	1,436,000
Advances from customers	3,722,921	3,087,315
Advances from customers-related party	2,177	-
Deferred revenue	509,297	471,375
Accounts payable	858,277	1,151,570
Accounts payable - related party	153,344	1,485,049
Accrued and other liabilities	4,637,144	2,487,616
Taxes payable	2,646,605	1,806,777
Due to related parties	764,533	405,222
Operating lease liabilities, current	125,885	177,903
Advance payment from the buyer associated with discontinued operation of Gu'an REIT	-	1,392,920
Current liabilities held for sale associated with discontinued operation of Gu'an REIT	-	3,004,924
<b>Total Current Liabilities</b>	<b>22,994,786</b>	<b>25,215,769</b>
Long term bank loans	6,285,300	7,323,600
Deferred grants	490,560	-
Operating lease liabilities - noncurrent	241,606	301,012
<b>Total Liabilities</b>	<b>30,012,252</b>	<b>32,840,381</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity:</b>		
Common Stock, \$0.001 par value, 200,000,000 shares authorized, 24,135,000 shares and 23,160,000 shares issued and outstanding as of December 31, 2020 and 2019, respectively	24,135	23,160
Additional paid-in capital	43,709,127	42,725,852
Statutory reserve	2,386,119	2,632,797
Accumulated deficit	(17,245,453)	(5,718,368)
Accumulated other comprehensive loss	(1,598,819)	(3,527,438)
<b>Total RETO Eco Solutions Inc. Stockholders' Equity</b>	<b>27,275,109</b>	<b>36,136,003</b>
Noncontrolling interest	686,712	1,818,860
<b>Total Equity</b>	<b>27,961,821</b>	<b>37,954,863</b>
<b>Total Liabilities and Equity</b>	<b>\$ 57,974,073</b>	<b>\$ 70,795,244</b>

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

**RETO ECO-SOLUTIONS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

	For the Years ended December 31,		
	2020	2019	2018
Revenues – third party customers	\$ 9,506,412	\$ 29,467,755	\$ 27,354,058
Revenues – related parties	228,088	83,972	1,940,811
<b>Total Revenues</b>	<b>9,734,500</b>	<b>29,551,727</b>	<b>29,294,869</b>
Cost of revenues – third party customers	8,429,103	22,136,559	13,897,146
Cost of revenues – related parties	148,034	54,598	1,372,302
<b>Total cost of revenues</b>	<b>8,577,137</b>	<b>22,191,157</b>	<b>15,269,448</b>
<b>Gross Profit</b>	<b>1,157,363</b>	<b>7,360,570</b>	<b>14,025,421</b>
Operating Expenses			
Selling expenses	1,282,299	1,308,436	1,902,323
General and administrative expenses	4,639,879	3,954,024	4,976,118
Bad debt expenses	5,729,544	8,331,344	1,724,133
Impairment of fixed assets	2,618,831	1,490,298	-
Research and development expenses	334,904	438,371	656,563
<b>Total Operating Expenses</b>	<b>14,605,457</b>	<b>15,522,473</b>	<b>9,259,137</b>
<b>(Loss) income from Operations</b>	<b>(13,448,094)</b>	<b>(8,161,903)</b>	<b>4,766,284</b>
<b>Other Income (expenses):</b>			
Interest expense	(1,544,515)	(1,253,855)	(1,069,758)
Interest income	(25)	4,549	5,940
Impairment of acquisition deposit		(2,172,000)	-
Other income (expenses), net	430,730	293,996	(6,604)
<b>Total Other Expenses, net</b>	<b>(1,113,810)</b>	<b>(3,127,310)</b>	<b>(1,070,422)</b>
<b>(Loss) income before provision for income taxes</b>	<b>(14,561,904)</b>	<b>(11,289,213)</b>	<b>3,695,862</b>
<b>Provision for income taxes</b>	<b>569,974</b>	<b>1,006,905</b>	<b>1,042,474</b>
<b>Net (loss) income from continuing operations</b>	<b>(15,131,878)</b>	<b>(12,296,118)</b>	<b>2,653,388</b>
Net (loss) income from discontinued operations of Gu'an REIT	-	(2,801,131)	1,914,294
Gain from disposal of Gu'an	2,231,270	-	-
<b>Net (Loss) Income</b>	<b>(12,900,608)</b>	<b>(15,097,249)</b>	<b>4,567,682</b>
Less: net (loss) income attributable to noncontrolling interest	(1,126,845)	(294,635)	87,064
<b>Net (loss) income attributable to ReTo Eco-Solutions, Inc.</b>	<b>\$ (11,773,763)</b>	<b>\$ (14,802,614)</b>	<b>\$ 4,480,618</b>
Net (loss) Income	\$ (12,900,608)	\$ (15,097,249)	\$ 4,567,682
Other Comprehensive (loss) income:			
Foreign currency translation adjustment:	1,923,316	(576,743)	(3,015,577)
<b>Comprehensive (Loss) Income</b>	<b>(10,977,292)</b>	<b>(15,673,992)</b>	<b>1,552,105</b>
Less: comprehensive (loss) income attributable to noncontrolling interest	(1,132,148)	(449,125)	(39,742)
<b>Comprehensive (loss) income attributable to ReTo Eco-Solutions, Inc.</b>	<b>\$ (9,845,144)</b>	<b>\$ (15,224,867)</b>	<b>\$ 1,591,847</b>
<b>(Loss) Earnings per share</b>			
Basic and diluted	<b>\$ (0.54)</b>	<b>\$ (0.66)</b>	<b>\$ 0.20</b>
<b>Weighted average number of shares</b>			
Basic and diluted	<b>24,124,884</b>	<b>22,888,219</b>	<b>22,760,000</b>

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

**RETO ECO-SOLUTIONS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**

	Common Stock		Additional paid-in Capital	Statutory Reserve	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
	Shares	Amount						
<b>Balance at December 31, 2017</b>	<b>22,760,000</b>	<b>\$ 22,760</b>	<b>\$ 42,278,252</b>	<b>\$ 1,989,475</b>	<b>\$ 5,246,950</b>	<b>\$ (216,414)</b>	<b>\$ 2,307,727</b>	<b>\$ 51,628,750</b>
Net income	-	-	-	-	4,480,618	-	87,064	4,567,682
Appropriation to statutory reserve	-	-	-	643,322	(643,322)	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	(2,888,771)	(126,806)	(3,015,577)
<b>Balance at December 31, 2018</b>	<b>22,760,000</b>	<b>\$ 22,760</b>	<b>\$ 42,278,252</b>	<b>\$ 2,632,797</b>	<b>\$ 9,084,246</b>	<b>\$ (3,105,185)</b>	<b>\$ 2,267,985</b>	<b>\$ 53,180,855</b>
Net income	-	-	-	-	(14,802,614)	-	(294,635)	(15,097,249)
Foreign currency translation adjustment	-	-	-	-	-	(422,253)	(154,490)	(576,743)
Issuance of common stock for services	400,000	400	447,600	-	-	-	-	448,000
<b>Balance at December 31, 2019</b>	<b>23,160,000</b>	<b>\$ 23,160</b>	<b>\$ 42,725,852</b>	<b>\$ 2,632,797</b>	<b>\$ (5,718,368)</b>	<b>\$ (3,527,438)</b>	<b>\$ 1,818,860</b>	<b>\$ 37,954,863</b>
Net income	-	-	-	-	(11,773,763)	-	(1,126,845)	(12,900,608)
Issuance of common stock for services	685,000	685	650,065	-	-	-	-	650,750
Issuance of common stock for services	290,000	290	333,210	-	-	-	-	333,500
Change in statutory reserve related to disposal of Gu'an	-	-	-	(575,695)	575,695	-	-	-
Appropriation to statutory reserve	-	-	-	329,017	(329,017)	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	1,928,619	(5,303)	1,923,316
<b>Balance at December 31, 2020</b>	<b>24,135,000</b>	<b>\$ 24,135</b>	<b>\$ 43,709,127</b>	<b>\$ 2,386,119</b>	<b>\$ (17,245,453)</b>	<b>\$ (1,598,819)</b>	<b>\$ 686,712</b>	<b>\$ 27,961,821</b>

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

**RETO ECO-SOLUTIONS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years ended December 31,		
	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net (loss) income	\$ (12,900,608)	\$ (15,097,249)	\$ 4,567,682
Less: net (loss) income from discontinued operations	-	(2,801,131)	1,914,294
Net (loss) income from continuing operations	(12,900,608)	(12,296,118)	2,653,388
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Loss from disposal of property and equipment	181,935	5,044	-
Deferred tax provision (benefit)	-	492,241	(224,882)
Depreciation and amortization	2,162,110	2,156,819	1,607,441
Amortization of stock-based compensation for services	772,125	168,000	-
Impairment of fixed assets	2,618,831	1,490,298	-
Impairment of an acquisition deposit	-	2,172,000	-
Change in bad debt allowances	5,729,544	8,331,344	1,724,133
Change in inventory reserve	131,326	145,478	-
Amortization of operating lease right-of-use assets	161,128	216,656	-
Gain(loss) from disposal subsidiary (Gu'an)	(2,231,270)	-	-
Changes in operating assets:			
Notes receivable	-	-	4,539
Accounts receivable	4,315,706	(5,564,171)	2,225,900
Accounts receivable - related party	282,527	(24,783)	(468,752)
Advances to suppliers	2,667,860	(98,576)	(1,267,313)
Advances to suppliers - related party	(3,810,445)	151,052	(157,833)
Inventories	74,579	166,240	(686,038)
Prepayments and other current assets	(766,015)	716,306	(44,844)
Changes in operating liabilities:			
Advances from customers	3,413,730	101,666	(3,015,757)
Advances from customers from related party	(1,819,820)	-	-
Deferred revenue	5,744	3,910	(20,173)
Accounts payable	(350,505)	194,816	(513,568)
Accounts payable - related party	(1,352,618)	942,176	557,584
Accrued and other liabilities	3,470,094	(55,665)	(2,491,467)
Long term accounts payable	(2,649,754)	-	-
Taxes payable	1,059,960	670,311	(816,008)
Lease liability	(190,019)	(243,594)	-
<b>Net cash (used in) provided by operating activities from continuing operations</b>	<b>976,145</b>	<b>(158,551)</b>	<b>(933,650)</b>
<b>Net cash provided by operating activities from discontinued operations</b>	<b>-</b>	<b>245,385</b>	<b>29,767</b>
<b>Net cash (used in) provided by operating activities</b>	<b>976,145</b>	<b>86,834</b>	<b>(903,883)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of property and equipment	-	9,256	-
Addition of property, equipment and construction-in-progress	(249,493)	(1,454,975)	(9,269,640)
Investment in equity method investment	(2,649,840)	(28,960)	-
Deposit made for acquisition	-	-	(2,269,500)
Advance payment from buyer associated with the discontinued operation of Gu'an REIT	-	1,404,560	-
Proceeds from disposal of subsidiary	3,843,734	-	-
<b>Net cash used in investing activities from continuing operations</b>	<b>944,401</b>	<b>(70,119)</b>	<b>(11,539,140)</b>
<b>Net cash used in investing activities from discontinued operations</b>	<b>-</b>	<b>(3,516)</b>	<b>(6,045)</b>
<b>Net cash used in investing activities</b>	<b>944,401</b>	<b>(73,635)</b>	<b>(11,545,185)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from short-term bank loans	11,012,040	8,977,600	10,182,490
Proceeds from long-term bank loans	-	724,000	9,304,950
Repayment of short-term bank loans	(13,097,915)	(9,455,440)	(8,790,530)
Repayment of long-term bank loans	(144,937)	(434,400)	(7,454,248)
Proceeds from related party loans	221,355	795,200	827,225
Repayment to related party loans	107,618	(897,496)	(581,000)
<b>Net cash (used in) provided by financing activities from continuing operations</b>	<b>(1,901,839)</b>	<b>(290,536)</b>	<b>3,488,887</b>
<b>Net cash (used in) provided by financing activities from discontinued operations</b>	<b>-</b>	<b>(256,947)</b>	<b>(32,771)</b>
<b>Net cash (used in) provided by financing activities</b>	<b>(1,901,839)</b>	<b>(547,483)</b>	<b>3,456,116</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND RESTRICTED CASH</b>	<b>120,615</b>	<b>(43,167)</b>	<b>(306,922)</b>
<b>NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH</b>	<b>139,322</b>	<b>(577,451)</b>	<b>(9,299,874)</b>
<b>CASH AND RESTRICTED CASH, BEGINNING OF YEAR</b>	<b>981,518</b>	<b>1,563,166</b>	<b>10,863,040</b>

CASH AND RESTRICTED CASH, END OF YEAR	\$ 1,120,840	\$ 985,715	\$ 1,563,166
Less: cash and cash equivalents, restricted cash of discontinued operations at end of period	-	4,197	19,390
Cash and cash equivalents, restricted cash of continued operation, at end of period	\$ 1,120,840	\$ 981,518	\$ 1,543,776
<b>RECONCILIATION TO AMOUNTS ON CONSOLIDATED BALANCE SHEETS:</b>			
Cash	\$ 1,120,840	\$ 897,281	\$ 1,458,483
Restricted cash	-	84,237	85,293
Total cash and restricted cash	\$ 1,210,767	\$ 981,518	\$ 1,543,776
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Interest paid	\$ 1,505,452	\$ 1,557,186	\$ 1,012,174
Income tax paid	\$ -	\$ 128,522	\$ 1,895,202
<b>Non-Cash Investing Activities</b>			
Right-of-assets obtained in exchange for operating lease obligations	\$ 402,778	\$ 726,512	\$ -
Right-of-assets offset with operating lease obligations due to lease cancellation	410,614	-	-
Accounts payable on fixed asset purchases	\$ -	\$ 206,486	\$ 2,996,358
Transfer from construction-in-progress to property and equipment	\$ -	\$ 283,098	\$ 13,799,649

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

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS**

ReTo Eco-Solutions, Inc. (“RETO” or the “Company”) is a company limited by shares established under the laws of the British Virgin Islands on August 7, 2015 as a holding company to develop business opportunities in the People’s Republic of China (the “PRC” or “China”). The Company, through its subsidiaries, is a manufacturer and distributor of environmental-friendly construction materials made from industrial and construction waste, as well as equipment used for production of these materials.

As of December 31, 2020, the accompanying consolidated financial statements of the Company reflected the principal activities of the entities listed below. All inter-company balances and transactions have been eliminated upon consolidation.

<b>Name of the Entity</b>	<b>Place of Incorporation</b>	<b>Ownership Percentage</b>
RETO	British Virgin Islands	Parent
REIT Holdings (China) Limited (“REIT Holdings”)	Hong Kong, China	100%
Beijing REIT Technology Development Co., Ltd. (“Beijing REIT”)	Beijing, China	100%
Gu’an REIT Machinery Manufacturing Co., Ltd. (“Gu’an REIT”) (1)	Gu’an, China	0%
REIT Mingsheng Environment Protection Construction Materials (Changjiang) Co., Ltd. (“REIT Changjiang”)	Changjiang, China	100%
Beijing REIT Eco-Engineering Technology Co., Ltd. (“REIT Eco Engineering”)	Beijing, China	100%
Langfang Ruirong Mechanical and Electrical Equipment Co., Ltd. (“Ruirong”)	Langfang, China	100%
Hainan REIT Construction Project Co., Ltd. (“REIT Construction”)	Haikou, China	100%
REIT Xinyi New Materials Co., Ltd. (“REIT Xinyi”)	Xinyi, China	70%
Nanjing Dingxuan Environmental Protection Technology Development Co., Ltd. (“Dingxuan”)	Nanjing, China	100%
REIT Technology Development (America), Inc. (“REIT US”)	California, U.S.A	100%
REIT Q GREEN Machines Private Limited (“REIT India”)	India	51%
REIT Ecological Technology Co., Ltd. (“REIT Yancheng”)	Yancheng, China	100%
Datong Ruisheng Ecological Technology Co., Ltd. (“Datong Ruisheng”)	Datong, China	100%
Guangling Ruitu Ecological Cultural Tourism Co., Ltd. (“Guangling Ruitu”)	Datong, China	100%
Ruitu (Xiong’an, Hebei) Eco Technology Co., Ltd.(Ruitu Xiong’an)	Xiong’an, China	100%

(1) On January 2, 2020, Beijing REIT sold its 100% equity interests in Gu’an REIT to Hebei Huishitong Technology Inc. (“Huishitong”). After the transaction, the Company no longer owns any equity interest in Gu’an REIT as of the date of this report. (See Note 4—Discontinued operations.)



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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Discontinued operations**

On January 2, 2020, the Company discontinued the machinery and equipment manufacturing business under Gu'an REIT. A component of a reporting entity or a group of components of a reporting entity that are disposed or meet the criteria to be classified as held for sale, such as the management, having the authority to approve the action, commits to a plan to sell the disposal group, should be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Discontinued operations are reported when a component of an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity is classified as held for disposal or has been disposed of, if the component either (1) represents a strategic shift or (2) have a major impact on an entity's financial results and operations. In the consolidated statements of operations and comprehensive loss, results from discontinued operations are reported separately from the income and expenses from continuing operations and prior periods are presented on a comparative basis. In order to present the financial effects of the continuing operations and discontinued operations, revenue and expenses arising from intra-group transactions are eliminated except for those revenue and expenses that are expected to continue after the disposal of the discontinued operations.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting 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 and equipment, intangible assets, the recoverability of long-lived assets, provision necessary for contingent liabilities, revenue recognition under the input method, and realization of deferred tax assets. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents represent cash on hand and time deposits, which have original maturities of three months or less when purchased and which are unrestricted as to withdrawal and use. In addition, highly liquid investments which have original maturities of three months or less when purchased are classified as cash equivalents. The Company maintains most of the bank accounts in the PRC. Cash balances in bank accounts in PRC are not insured by the Federal Deposit Insurance Corporation or other programs.

**Restricted Cash**

Restricted cash consists of cash equivalents used as collateral to secure bank borrowings. The Company is required to keep certain amounts on deposit that are subject to withdrawal restrictions. The restricted cash balance is associated with the Company's short-term borrowings, thus, classified as a current asset. As of December 31, 2020, and 2019, the Company had restricted cash of \$nil and \$84,237, respectively, related to the bank acceptance notes payable.

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Accounts Receivable, net**

Accounts receivable are recognized and carried at original invoiced amount less an estimated allowance for uncollectible accounts. The Company usually grants credit to customers with good credit standing with a maximum of 180 days and determines the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. The Company establishes a provision for doubtful receivables when there is objective evidence that the Company may not be able to collect amounts due. The allowance is based on management's best estimates of specific losses on individual exposures, as well as a provision on historical trends of collections. Based on the assessment of customers' credit and ongoing relationships, the Company's payment terms typically range from 90 days to 1 year. The provision is recorded against accounts receivables balances, with a corresponding charge recorded in the consolidated statements of income and comprehensive income. Actual amounts received may differ from management's estimate of credit worthiness and the economic environment. Delinquent account balances are written-off against the allowance for doubtful accounts after management has determined that the likelihood of collection is not probable. As affected by the recent COVID-19 outbreak and spread, the Company's accounts receivable collection was negatively affected. Based on subsequent collection analysis, the Company accrued increased bad debt reserve for the outstanding accounts receivable as of December 31, 2020. As a result, allowance for uncollectible balances amounted to \$14,717,842 and \$11,124,368 as of December 31, 2020 and 2019, respectively.

**Inventories**

Inventories are stated at the lower of cost or net realizable value. Costs include the cost of raw materials, freight, direct labor and related production overhead. The cost of inventories is calculated using the weighted average method. 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. The Company recorded an inventory reserve of \$293,053 and \$144,272 from its continuing operations as of December 31, 2020 and 2019, respectively.

**Advances to Suppliers, net**

Advances to suppliers consist of balances paid to suppliers for services and materials that have not been provided or received. Advances to suppliers for service and material are short-term in nature. Advances to Suppliers are reviewed periodically to determine whether their carrying value has become impaired. The Company considers the assets to be impaired if the collectability of the advance becomes doubtful. The Company uses the aging method to estimate the allowance for uncollectible balances. In addition, at each reporting date, the Company generally determines the adequacy of allowance for doubtful accounts by evaluating all available information, and then records specific allowances for those advances based on the specific facts and circumstances. Allowance for uncollectible balances from the continued operations amounted to \$2,830,556 and \$916,948 as of December 31, 2020 and 2019, respectively.

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, Plant and Equipment**

Property and equipment are stated at cost. The straight-line depreciation method is used to compute depreciation over the estimated useful lives of the assets, as follows:

	<b>Useful life</b>
Property and buildings	30–50 years
Machinery equipment	5–15 years
Transportation vehicles	5–10 years
Office and electronic equipment	3–5 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 which 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 income and other comprehensive income in other income or expenses.

**Construction-in-Progress (“CIP”)**

Construction-in-progress represents property and buildings under construction and consists of construction expenditures, equipment procurement, and other direct costs attributable to the construction. Construction-in-progress is not depreciated. Upon completion and ready for intended use, construction-in-progress is reclassified to the appropriate category within property, plant and equipment.

**Intangible Assets**

Intangible assets consist primarily of land use rights and software. Under the 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”. Land use rights are stated at cost less accumulated amortization. Intangible assets are amortized using the straight-line method with the following estimated useful lives:

<b>Items</b>	<b>Useful life</b>
Land use rights	45–49 years
Software	10 years

**Impairment of Long-lived Assets**

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. During the year ended December 31, 2019, the Company disposed of approximately \$0.2 million of outdated and fully depreciated equipment and machinery. Given the Company’s net loss position in fiscal 2019 and 2020, the Company further assessed that the expected future cash flow generated from its machinery, equipment, and other long-lived assets would not recover their carrying value and as a result, the Company recorded an impairment of approximately \$2.6 million and \$1.5 million on these fixed assets for the year ended December 31, 2020 and 2019 based on the fair value assessment provided by the third party valuation firm using the significant unobservable inputs.

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Long-term investment in Equity Investee**

The Company's long-term investments include equity method investments and equity investments without readily determinable fair values.

Investments in entities in which the Company can exercise significant influence but does not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC 323, Investments-Equity Method and Joint Ventures ("ASC 323"). Under the equity method, the Company initially records its investment at cost and the difference between the cost of the equity investee and the amount of the underlying equity in the net assets of the equity investee is accounted for as if the investee were a consolidated subsidiary. The share of earnings or losses of the investee are recognized in the consolidated statements of comprehensive loss. Equity method adjustments include the Company's proportionate share of investee income or loss, adjustments to recognize certain differences between the Company's carrying value and its equity in net assets of the investee at the date of investment, impairments, and other adjustments required by the equity method. The Company assesses its equity investment for other-than-temporary impairment by considering factors as well as all relevant and available information including, but not limited to, current economic and market conditions, the operating performance of the investees including current earnings trends, the general market conditions in the investee's industry or geographic area, factors related to the investee's ability to remain in business, such as the investee's liquidity, debt ratios, and cash burn rate and other company-specific information.

Investments in equity securities without readily determinable fair values are measured at cost minus impairment adjusted by observable price changes in orderly transactions for the identical or a similar investment of the same issuer. These investments are measured at fair value on a nonrecurring basis when there are events or changes in circumstances that may have a significant adverse effect. An impairment loss is recognized in the consolidated statements of comprehensive loss equal to the amount by which the carrying value exceeds the fair value of the investment. Prior to the adoption of ASU 2016-01 on January 1, 2019, these investments were accounted for using the cost method of accounting, measured at cost less other-than-temporary impairment.

As of December 31, 2019, the Company's long term investment in equity investee balance consisted of (i) its \$28,720 or 40% ownership interest in Inner Mongolia REIT Zhengbei Environment Technology Co. Ltd. ("REIT Zhengbei") and (ii) nominal amount or 28.75% ownership interest in Yunnan Litu Ruima Biotechnology Co., Ltd ("Litu Ruima"). Both REIT Zhengbei and Litu Ruima were incorporated in 2019. The Company accounted for the above-mentioned investments using equity method, because the Company has significant influence but does not own a majority equity interest or otherwise control over these equity investees. Since both REIT Zhengbei and Litu Ruima did not commence its planned operation during 2020, the Company disposed these two equity investments in fiscal 2020 at cost and no gain or losses recognized from these dispositions. As of December 31, 2020, the Company does not own any equity interest in the above two equity investees.

As of December 31, 2020, the Company's long term investment in equity investee balance represents its \$2,836,050 or 41.67% equity investment in Shexian Ruibo Environmental Science and Technology Co., Ltd. (Shexian Ruibo). On September 7, 2020, the Company acquired such equity interest from an original shareholder of Shexian Ruibo and the original shareholder of Shexian Ruibo. Shexian Ruibo manufactures and sells eco-friendly construction materials in the PRC. The Company accounted for the investments using equity method, because the Company has significant influence but does not own a majority equity interest or otherwise control over the equity investee. Under the equity method, the Company adjusts the carrying amount of the investment and recognizes investment income or loss for its share of the earnings or loss of the investee after the date of investment. When the Company's share of losses in the equity investee equals or exceeds its interest in the equity investee, the Company does not recognize further losses, unless the Company has incurred obligations or made payments or guarantees on behalf of the equity investee. For the year ended December 31, 2020, the investment income from Shexian Ruibo was immaterial.

The Company continually reviews its investments in equity investees to determine whether a decline in fair value below the carrying value is other-than-temporary. The primary factors the Company considers in its determination include the financial condition, operating performance and the prospects of the equity investee; other company specific information such as recent financing rounds; the geographic region, market and industry in which the equity investee operates; and the length of time that the fair value of the investment is below its carrying value. If the decline in fair value is deemed to be other-than-temporary, the carrying value of the equity investee is written down to fair value. As of December 31, 2020 and 2019, the Group did not recognized any impairment on its equity investment.

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Leases**

The Company adopted ASU No. 2016-02—Leases (Topic 842) on January 1, 2019 using the modified retrospective transition method permitted under ASU No. 2018-11. 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 of approximately \$0.7 million as of January 1, 2019. The standard did not materially impact our consolidated net earnings and cash flows.

**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 - Quoted prices in active markets for identical assets and liabilities.
- Level 2 - Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company considers the recorded value of its financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, advance to suppliers, accounts payable, accrued and other liabilities, advances from customers, deferred revenue, taxes payable and due to related parties to approximate the fair value of the respective assets and liabilities at December 31, 2020 and 2019, based upon the short-term nature of the assets and liabilities.

The Company believes that the carrying amount of the short-term and long-term borrowings approximates fair value at December 31, 2020 and 2019 based on the terms of the borrowings and current market rates as the rates of the borrowings are reflective of the current market rates.

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue Recognition**

The Company adopted ASC Topic 606 Revenue from Contracts with Customers (“ASC 606”) on January 1, 2018 using the modified retrospective approach. Under ASC 606, revenue is recognized when control of promised goods or services is transferred to the Company’s customers in an amount of consideration to which an entity expects to be entitled to in exchange for those goods or services.

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.

The Company’s revenues are primarily derived from the following sources:

- Revenue from machinery and equipment sales

The Company recognizes revenue when the machinery and equipment is delivered and control is transferred. The Company generally provide a warranty for a period of 12 months after the customers receive the equipment. The Company determines that such product warranty is not a separated performance obligation because the nature of warranty is to provide assurance that a product will function as expected and in accordance with customer’s specification and the Company has not sold the warranty separately. From its past experience, the Company has not experienced any material warranty costs and, therefore, the Company does not believe an accrual for warranty cost is necessary for the years ended December 31, 2020, 2019 and 2018.

- Revenue from construction materials sales

The Company recognizes revenue, net of sales taxes and estimated sales returns, when the construction materials are shipped to, delivered to or picked up by customers and control is transferred.

- Revenue from municipal construction projects

The Company provides municipal construction services which includes sponge city projects, sewage pipeline construction, public plaza construction, and landscaping, etc. The Company recognizes revenue associated with these contracts over time as service is performed and the transfer of control occurs, based on a percentage-of-completion method using cost-to-cost input methods as a measure of progress. When the percentage-of-completion method is used, the Company estimates the costs to complete individual contracts and records as revenue that portion of the total contract price that is considered complete based on the relationship of costs incurred to date to total anticipated costs (the cost-to-cost approach).

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue Recognition (continued)**

Under the cost-to-cost approach, the use of estimated costs to complete each contract is a significant variable in the process of determining recognized revenue, requires judgment and can change throughout the duration of a contract due to contract modifications and other factors impacting job completion. The costs of earned revenue include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

- Revenue from technological consulting and other services

The Company recognizes revenue when technological consulting and other services are rendered and accepted by the customers.

**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 December 31, 2020 and 2019, 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 products and services, as we believe 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 December 31, 2020, 2019 and 2018 is disclosed in Note 19.

**Shipping and Handling**

Shipping and handling costs are expensed as incurred and are included in operating expenses, as a part of selling, and general and administrative expenses, in the Company's consolidated statements of income and comprehensive income. Shipping and handling costs associated with the Company's continuing operations were \$328,305, \$451,333 and \$658,382 for the years ended December 31, 2020, 2019 and 2018, respectively.

**Government grants**

Government grants represent cash subsidies received from PRC government or related institutions. Cash subsidies which have no defined rules and regulations to govern the criteria necessary for companies to enjoy the benefits are recognized as other income, net when received. Specific subsidies that local government has provided for a specific purpose, such as research and development are recorded as other non-current liabilities when received and recognized as other income or reduction of related expense when the specific performance is met. As of December 31, 2020, the Company received related grants of \$490,560 for a specific research and development project to be conducted during the period from 2021 to 2022. The Company recorded such grants as deferred grants in the non-current liability of its consolidated balance sheet.

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income Taxes**

The Company accounts for income taxes under ASC 740. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

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.

The provisions of ASC 740-10-25, “Accounting for Uncertainty in Income Taxes,” prescribe a more-likely-than-not threshold for consolidated financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. This interpretation also provides guidance on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and related disclosures. The Company records a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated.

To the extent applicable, the Company records interest and penalties as a general and administrative expense. The Company’s subsidiaries in China and Hong Kong are subject to the income tax laws of the PRC and Hong Kong. No significant taxable income was generated outside the PRC for the years ended December 31, 2020, 2019 and 2018. As of December 31, 2020, the tax years ended December 31, 2016 through December 31, 2020 for the Company’s PRC subsidiaries remain open for statutory examination by PRC 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 13%, starting from April 1, 2019, 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 net of payments in the accompanying consolidated financial statements. 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.

**Earnings (Loss) per Share**

The Company computes earnings (loss) 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 is similar to basic EPS but 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. For the years ended December 31, 2020, 2019 and 2018, the Company had no dilutive security outstanding that could potentially dilute EPS in the future.



**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign Currency Translation**

The Company's principal country of operations is the PRC. The financial position and results of its operations located in PRC are determined using RMB, the local currency, as the functional currency. RETO, REIT US and REIT Holdings use U.S. Dollars as their functional currency, while REIT India uses Indian rupee as the functional currency. 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 currency 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). Gains and losses from foreign currency transactions are included in the results of operations.

The value of RMB against US\$ and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. Any significant revaluation of RMB may materially affect the Company's financial condition in terms of US\$ reporting. The following table outlines the currency exchange rates that were used in creating the consolidated financial statements in this report:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Year-end spot rate	US\$1=RMB 6.5250	US\$1=RMB 6.9618	US\$1=RMB 6.8755
Average rate	US\$1=RMB 6.9042	US\$1=RMB 6.9081	US\$1=RMB 6.6090

**Risks and Uncertainties**

The main operation of the Company is located in the PRC. Accordingly, the Company's business, financial condition, and results of operations may be influenced by political, economic, and legal environments in the PRC, as well as by the general state of the PRC economy. The Company's results may be adversely affected by changes in the political, regulatory and social conditions in the PRC. Although the Company has not experienced losses from these situations and believes that it is in compliance with existing laws and regulations including its organization and structure disclosed in Note 1, this may not be indicative of future results.

The coronavirus disease 2019 ("COVID-19") outbreak has, and continues to have, a severe and negative impact on the Chinese and the global economy. The Company's business has been negatively impacted by the COVID-19 outbreak.

From late January 2020 to March 2020, the Company had to temporarily suspend its manufacturing activities due to government restrictions. During the temporary business closure period, employees had very limited access to the Company's manufacturing facilities and the shipping companies were not available, and as a result, the Company experienced difficulty delivering its products to customers on a timely basis. In addition, due to the COVID-19 outbreak, some of the Company's customers or suppliers experienced financial distress, delayed or defaulted on their payments, reduced the scale of their business, and suffered disruptions in their business. Any increased difficulty in collecting accounts receivable, delayed raw materials supply, bankruptcy of small and medium businesses, or early termination of agreements due to deterioration in economic conditions could negatively impact the Company's results of operations. As the COVID-19 outbreak is relatively under control in China, the Company's production and sales activities from the Company's continuing operations have been gradually returning to normal. However, the COVID-19 outbreak continues to have a severe and negative impact on China and the global economy. The total impact is still unknown and cannot be reasonably estimated at this point of time.

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Reclassifications**

In connection with the discontinued operations of a business, certain prior-year amounts have been reclassified for consistency with the current-year presentation. These reclassifications had no effect on the reported results of operations. The assets and liabilities related to the discontinued operations are classified as assets/liabilities held for sale as of December 31, 2020 and 2019, while results of operations related to the discontinued operations, including comparatives, were reported as losses from discontinued operations. Certain prior-year balance sheet accounts have been reclassified to conform to the current-year presentation.

**Concentrations and Credit Risk**

A majority of the Company's 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 affect the remittance.

As of December 31, 2020, and 2019, \$1,032,264 and \$765,701 of the Company's cash and cash equivalents was on deposit at financial institutions in the PRC 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, as of December 31, 2020 and 2019, \$63,603 and \$9,324 of the Company's cash and cash equivalents was on deposit at financial in the Republic of India ("India") which is insured under the Deposit Insurance and Credit Guarantee Corporation up to 100,000 Indian Rupee (approximately \$1,403).

For the year ended December 31, 2020, 2019 and 2018, no single customer accounted for more than 10% of the Company's total revenue.

As of December 31, 2020 and 2019, no single customer accounts for more than 10% of the Company's consolidated accounts receivable.

As of December 31, 2020, two suppliers accounted for 16% and 20% of the total accounts payable balance, respectively. As of December 31, 2019, two suppliers accounted for 32% and 21% of the total accounts payable balance, respectively.

For the years ended December 31, 2020, 2019 and 2018, the Company purchased approximately 43%, 25% and 28% of its raw materials from one major supplier, respectively.

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 June 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326) (“ASU 2016-13”), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. ASU 2016-13 was subsequently amended by Accounting Standards Update 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Accounting Standards Update 2019-04 Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, and Accounting Standards Update 2019-05, Targeted Transition Relief. For public entities, ASU 2016-13 and its amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For all other entities, this guidance and its amendments will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. As an emerging growth company, the Company plans to adopt this guidance effective January 1, 2023. The Company is currently evaluating the impact of its pending adoption of ASU 2016-13 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 Company is currently evaluating the effect of adopting this ASU on its consolidated financial statements.

Except for the above-mentioned pronouncements, there are no recently issued accounting standards that will have a material impact on the audited consolidated financial position, statements of operations, and cash flows of the Company.

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 – GOING CONCERN**

As reflected in the Company’s consolidated financial statements for the year ended December 31, 2020, the Company’s revenue decreased by approximately \$19.8 million, or 67.1%, from approximately \$29.6 million in the year ended December 31, 2019 to approximately \$9.7 million in the year ended December 31, 2020, its gross profit from continued operation decreased by approximately \$6.2 million, or 84.3%, from approximately \$7.4 million in the year ended December 31, 2019 to approximately \$1.2 million for the year ended December 31, 2020, and its gross margin for the year ended December 31, 2020 decreased to 11.9% from 24.9% from last year. These decreases were mainly attributable to increasing raw material cost for manufacturing and decreasing sales of the Company’s construction materials, due to the Company’s failure to obtain bids from new municipal construction projects. In addition, for the year ended December 31, 2020 and 2019, the Company incurred significant impairment losses on bad debt expenses on uncollectible accounts receivable and advance payments due to changes in market conditions of its customers and suppliers. As a result, for the year ended December 31, 2020 and 2019, the Company reported a net loss of approximately \$12.9 million and \$15.1 million, respectively. As of December 31, 2020, the Company had a working capital deficit of approximately of \$9.4 million.

In addition, the Company had large bank borrowings as of December 31, 2020 and some of the bank loans will mature and need to be repaid within the next 12 months. If the Company cannot renew existing loans or borrow additional loans from banks, the Company’s working capital may be further negatively impacted. Furthermore, in January 2020, the Company discontinued its machinery and equipment manufacturing business under Gu’an REIT (see Note 4), which may negatively impact the Company’s ability to fulfill customer orders if outsourcing of such manufacturing activities to third-party suppliers cannot meet the expectation or higher purchase costs may shrink the Company’s profitability in this business sector. The outbreak and spread of the COVID-19 throughout China and worldwide has caused significant volatility in the PRC and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the PRC and international economies. To reduce the spread of the COVID-19, the Chinese government has employed measures including city lockdowns, quarantines, travel restrictions, suspension of business activities, and school closures. Due to difficulties and challenges resulting from the COVID-19 outbreak, the Company temporarily closed its facilities and operations until late March 2020. During this temporary business closure period, there was limited support from the Company’s employees, delayed access to raw material supplies, reduced customer sales orders, and the Company’s inability to promote the sales to customers on a timely basis. Based on the assessment of the current economic environment, customer demand, and sales trend, and the negative impact from COVID-19 outbreak and spread, there is an uncertainty that the Company’s revenue and operating cash flows may be significantly lower than expected for the next 12 months.

As of December 31, 2020, the Company had cash of approximately \$1.1 million. In addition, the Company had outstanding accounts receivable of approximately \$3.4 million (including accounts receivable from third-party customers of \$3.2 million and accounts receivable from related party customers of approximately \$0.2 million), of which approximately \$0.3 million, or 3%, had been subsequently collected back between January and April 2021, and became available for use as working capital. As of December 31, 2020, the Company had outstanding bank loans of approximately \$15.9 million from a PRC bank (including short-term loans of approximately \$6.7 million, current portion of long-term loans of approximately \$2.9 million, and long-term loans of approximately \$6.3 million).

On March 1, 2021, the Company entered into a securities purchase agreement (the “Agreement”) with an accredited investor (the “Debenture Holder”) to place a Convertible Debenture (the “Debenture”) with a maturity date of twelve months after the issuance thereof in the aggregate principal amount of up to \$2,300,000 (the “Transaction”), provided that in case of an event of default, the Debenture may become at the Debenture Holder’s election immediately due and payable. The Debenture Holder may convert the Debenture in its sole discretion to Company’s common shares at any time at the lower of \$2.50 or 95% of the average of the two lowest daily VWAPs during the ten consecutive trading days immediately preceding the conversion date.

Management expects that it would be able to renew all of its existing bank loans upon their maturity based on past experience and the Company’s good credit history. Currently, the Company is working to improve its liquidity and capital source mainly through cash flow from its operations, renewal of bank borrowings, and borrowing from related parties. In order to fully implement its business plan and sustain continued growth, the Company may also seek equity financing from outside investors. At the present time, however, the Company does not have commitments of funds from any potential investors. No assurance can be given that additional financing, if required, would be available on favorable terms or at all.

Based on above reasons, there is a substantial doubt about the Company’s ability to continue as a going concern for the next 12 months from the issuance of the consolidated financial statements.

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 – DISCONTINUED OPERATION**

The Company's subsidiary Gu'an REIT was primarily engaged in manufacturing and distribution of machinery and equipment used for environmental-friendly construction materials production. On January 2, 2020, Beijing REIT signed a share transfer agreement with a third party - Hebei Huishitong Technology Inc. ("Huishitong") to sell 100% ownership interest in Gu'an REIT to Huishitong for a cash consideration of RMB 39.9 million (approximately \$5.7 million). As of December 31, 2019, the Company received RMB 9.7 million (approximately \$1.5 million) from Huishitong as an acquisition deposit. In 2020, the Company received an additional RMB 26.6 million (approximately \$4.1 million). Pursuant to the supplemental share transfer agreement, Huishitong shall make the remaining payment of RMB 3.6 million (approximately \$0.6 million) to the Company before June 30, 2021. The Company recorded a gain from the disposition of \$2,231,270 for the year ended December 31, 2020.

The discontinued operation represents a strategic shift that has a major effect on the Company's operations and financial results, which trigger discontinued operations accounting in accordance with ASC 205-20-45. The assets and liabilities related to the discontinued operations are classified as assets/liabilities held for sale as of December 31, 2020 and 2019, while results of operations related to the discontinued operations for the years ended December 31, 2020, 2019 and 2018, were reported as income (loss) from discontinued operations.

The results of discontinued operations for years ended December 31, 2020, 2019 and 2018 are as follows:

	For the years ended December 31,		
	2020	2019	2018
Revenue	\$ -	\$ 5,303,071	\$ 8,274,992
Cost of revenues	-	4,475,590	5,098,892
Gross profit	-	827,481	3,176,100
Operating expenses	-	3,582,359	744,417
(Loss) income from discontinued operations	-	(2,754,878)	2,431,683
Other income (expense), net	-	10,762	20,591
(Loss) income before tax	-	(2,744,116)	2,452,274
Income tax provision	-	57,015	537,981
Net (loss) income from discontinued operations	\$ -	\$ (2,801,131)	\$ 1,914,293

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 – DISCONTINUED OPERATION (continued)**

**Assets and liabilities of the discontinued operations:**

	<b>As of December 31,</b>	
	<b>2020</b>	<b>2019</b>
Cash	-	\$ 4,197
Accounts receivable, net	-	1,024,051
Accounts receivable-related party	-	476,334
Advance to suppliers, net	-	107,413
Advances to suppliers-related party	-	3,381,788
Prepayment and other assets, net	-	16,645
Due from related party	-	315,920
Inventories	-	-
<b>Total current assets held for sale</b>	<b>-</b>	<b>5,326,348</b>
Property and equipment, net	-	765,450
Intangible assets, net	-	428,002
Right of use assets	-	373
<b>Total non-current assets held for sale</b>	<b>-</b>	<b>1,193,825</b>
<b>Total assets held for sale</b>	<b>-</b>	<b>6,520,173</b>
Accounts payable	-	831,724
Advance from customers	-	38,593
Taxes payable	-	1,753,821
Accrued liabilities and other payables	-	270,644
Due to related parties	-	110,142
<b>Total liabilities held for sale</b>	<b>-</b>	<b>\$ 3,004,924</b>

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 – ACCOUNTS RECEIVABLE, NET**

Accounts receivable consisted of the following:

	December 31, 2020	December 31, 2019
Trade accounts receivable from third-party customers	\$ 17,938,346	\$ 22,376,370
Less: allowances for doubtful accounts	(14,717,842)	(11,124,368)
Total accounts receivable from third-party customers, net	3,220,504	11,252,002
Add: accounts receivable, net, related parties	202,074	469,474
Accounts receivable, net	<u>\$ 3,422,578</u>	<u>\$ 11,721,476</u>

Due to a change in market conditions as affected by the COVID-19 outbreak and spread, the Company's collection efforts did not result in a favorable outcome as compared to prior years. For the Company's December 31, 2020 accounts receivable balance from third party customers, approximately \$0.5 million, or 3% has been collected as of the date of this report and the remaining balance is expected to be substantially collected from customers before December 31, 2021.

Allowance for doubtful accounts movement is as follows:

	December 31, 2020	December 31, 2019
Beginning balance	\$ 11,124,368	\$ 3,228,732
Bad debt provision	3,988,387	8,001,921
Write off	(1,303,932)	-
Foreign exchange translation	909,019	(106,285)
Ending balance	<u>\$ 14,717,842</u>	<u>\$ 11,124,368</u>

Below is the aging schedule of accounts receivable as of December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Accounts Receivable Aging:		
Less than 3 months	\$ 2,533,525	\$ 5,387,285
From 4 to 6 months	686,175	4,107,880
From 7 to 9 months	408,037	4,284,179
From 10 to 12 months	160,761	3,397,470
Over 1 year	14,351,922	5,669,030
Bad debt reserve	(14,717,842)	(11,124,368)
Accounts Receivable, net	<u>\$ 3,422,578</u>	<u>\$ 11,721,476</u>

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 – ADVANCES TO SUPPLIERS, NET**

Advances to suppliers include prepayments for raw materials used for production and construction materials for the Company's construction projects, which consisted of the following:

	December 31, 2020	December 31, 2019
Raw material prepayments for equipment production	\$ 1,203,451	\$ 584,655
Construction material prepayments	2,302,094	1,943,755
Land reclamation prepayments	427,219	437,980
Advances to construction subcontractors	469,460	400,187
<b>Total:</b>	<b>4,402,223</b>	<b>3,366,577</b>
Less: allowances for doubtful accounts	(2,830,556)	(916,948)
<b>Advances to suppliers, net, third parties</b>	<b>\$ 1,571,667</b>	<b>\$ 2,449,629</b>

Our suppliers generally require refundable prepayments from us before delivery of goods or service. It usually takes 3 to 6 months for the suppliers to deliver raw material for our equipment production and takes up to 6 to 12 months for the suppliers to deliver the construction materials. The prepayment is necessary to secure the supply in the market or secure a favorable price. For the Company's December 31, 2020 net advance to suppliers balance, approximately \$484,793 million, or 11% has been realized as of the date of this report and the remaining balance is expected to be substantially realized before December 31, 2021.

The changes of allowance for doubtful accounts for the years ended December 31, 2020 and 2019 are as follow:

	December 31, 2020	December 31, 2019
Beginning balance	\$ 916,948	\$ 627,614
Bad debt provision	1,749,000	299,586
Foreign exchange translation	164,608	(10,252)
<b>Ending balance</b>	<b>\$ 2,830,556</b>	<b>\$ 916,948</b>

**NOTE 7 – INVENTORIES, NET**

Inventories, net, consisted of the following:

	December 31, 2020	December 31, 2019
Raw materials	\$ 184,681	\$ 239,983
Finished goods	838,579	792,492
	1,023,260	1,032,475
Less: Inventory allowance	(293,053)	(144,272)
<b>Inventories, net</b>	<b>\$ 730,207</b>	<b>\$ 888,203</b>

Inventories include raw material and finished goods. Finished goods include direct material costs, direct labor costs and manufacturing overhead.

For the years ended December 31, 2020, 2019 and 2018, the Company provided an inventory allowance of \$131,326, 144,272 and Nil, respectively.



**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 – PREPAYMENTS AND OTHER CURRENT ASSETS**

The Company's prepaid expenses and other current assets are as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Other receivable, net (1)	\$ 834,869	\$ 115,762
Prepaid expense (2)	492,125	280,000
Value added tax receivable	-	39,511
Total	<u>\$ 1,326,994</u>	<u>\$ 435,273</u>

(1) Other receivables mainly consisted of the remaining payment of RMB3.6 million (approximately \$0.6 million) to be received from Huishitong in connection with the Company's disposition of Gu'an REIT (see Note 4). Other receivables also include advances to employees for business development purposes and prepaid employee insurance and welfare benefit which will be subsequently deducted from the employee's payroll.

(2) Prepaid expense as of December 31, 2019 represents prepaid consulting fees to one financial advisory firm for consulting services. On September 5, 2019, the Company entered into a consulting service agreement with FirstTrust Group, Inc. ("FirstTrust") Pursuant to the agreement, FirstTrust will assist the Company with strategic initiatives over the service period between August 16, 2019 to August 15, 2020. The Company issued 400,000 of its common shares valued at \$448,000 based on fair market price of the Company's common stock, at \$1.12 per share on September 5, 2019. Stock-based compensation is amortized over the service period. The Company recognized stock-based compensation expense of \$168,000 and \$280,000 for the year ended December 31, 2019 and 2020.

Prepaid expense as of December 31, 2020 represents unamortized stock-based compensation expenses related to directors, executives and employees. (see Note 14)

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 – LEASE**

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. Rent expense for the years ended December 31, 2020, 2019 and 2018 was \$188,802, \$256,693 and \$233,921, respectively.

The Company's operating leases primarily include leases for office space and manufacturing facilities. The current portion of operating lease liabilities and the non-current portion of operating lease liabilities are presented on the consolidated balance sheet. Total lease expense amounted to \$188,802, which included \$23,331 of interest and \$161,128 of amortization expense of ROU assets. Total cash paid for operating leases amounted to \$201,173 for the year ended December 31, 2020. Supplemental balance sheet information related to operating leases is as follows:

	<b>December 31, 2020</b>
Right-of-use assets	<u>\$ 376,502</u>
Operating lease liabilities - current	\$ 125,885
Operating lease liabilities - non-current	241,606
Total operating lease liabilities	<u>\$ 367,491</u>

The weighted average remaining lease terms and discount rates for all of operating leases were as follows as of December 31, 2020:

Remaining lease term and discount rate:	
Weighted average remaining lease term (years)	2.91
Weighted average discount rate	7.42%

The following is a schedule of maturities of lease liabilities as of December 31, 2020:

2021	\$ 143,251
2022	138,983
2023	114,331
Total lease payments	-
Less: imputed interest	29,074
Present value of lease liabilities	<u>\$ 367,491</u>

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 – PREPAYMENT FOR CONSTRUCTION OF PROPERTIES**

During the year ended December 31, 2018, the Company made prepayments of \$3,661,800 (RMB 25.5 million) to a subcontractor for the intended construction of manufacturing facilities for its newly established subsidiary REIT Yancheng. In 2019, based on current market conditions and the Company's financial performance, the Company intends to terminate the contract with the subcontractor and request the full refund of the prepayment. The Company expects to receive a full refund from this subcontractor, as a result, the balance has been reclassified as current assets as of December 31, 2019. As of December 31, 2020, the remaining balance was \$1,073,100, which is expected to be received by June 30, 2021.

**NOTE 11 – PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment, net consisted of the following:

	December 31, 2020	December 31, 2019
Property and buildings	\$ 43,243,576	\$ 40,531,954
Machinery and equipment	4,756,854	4,601,174
Transportation vehicles	1,113,632	970,650
Office and electronic equipment	228,521.5	335,145
Subtotal	49,342,584	46,438,923
Construction in progress ("CIP")	200,145	107,652
Less: accumulated depreciation	(10,115,818)	(7,610,984)
Impairment of fixed assets	(4,349,960)	(1,477,948)
Property, plant and equipment, net	<u>\$ 35,076,952</u>	<u>\$ 37,457,643</u>

During the year ended December 31, 2019, the Company disposed of approximately \$0.2 million of outdated and fully depreciated equipment and machinery. In addition, given the Company's net loss position in fiscal 2019, the Company further assessed that the expected future cash flows may not cover the carrying value of the Company's fixed asset equipment and machinery. As a result, the Company recorded an impairment of approximately \$1.5 million on its fixed assets for the year ended December 31, 2019. For the year ended December 31, 2020, management recognized additional \$2.6 million impairment losses on the property and equipment based on the assessment performed by third party valuation firm.

As of December 31, 2020 and 2019, The Company's properties with an aggregate carrying value of approximately \$0.2 million (RMB 1.4 million) and \$1.2 million (RMB 8.6 million) have been used as collateral for the Company's short-term loans (see Note 13).

Depreciation expense was \$2,015,496, \$1,984,603 and \$1,454,155 for the years ended December 31, 2020, 2019 and 2018, respectively.

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 – INTANGIBLE ASSETS, NET**

Intangible assets, net consisted of the following:

	December 31, 2020	December 31, 2019
Land use rights	\$ 7,518,267	\$ 7,042,551
Software	28,796	26,974
<b>Total</b>	<b>7,547,063</b>	<b>7,069,525</b>
Less: accumulated amortization	(1,142,004)	(924,346)
<b>Intangible assets, net</b>	<b>\$ 6,405,059</b>	<b>\$ 6,145,179</b>

As of December 31, 2020 and 2019, land use rights of 380,255 and 306,000 square meters with a carrying value of approximately \$6.7 million and \$4.4 million, respectively, was pledged to the bank as collateral for the Company's long-term bank loan (see Note 14).

Amortization expense was \$146,614, \$172,216 and \$153,286 for the years ended December 31, 2020, 2019 and 2018, respectively.

Estimated future amortization expense is as follows:

Twelve months ending December 31,	Amortization expense
2021	\$ 155,202
2022	155,202
2023	155,202
2024	155,202
2025	155,202
2026 and Thereafter	5,629,050
	<b>\$ 6,405,059</b>

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 13 – SHORT-TERM LOANS**

Short-term loans consisted of the following:

	December 31, 2020	December 31, 2019
China Merchants Bank(“CMB”) (1)	\$ -	\$ 3,590,000
Beijing Bank(“BJB”) (2)	-	2,872,000
Bank of Communications(“BOC”) (3)	-	718,000
Haikong Holdings Microfinance Co., Ltd.(“HHMC”) (4)	183,960	172,320
Changjiang Li Autonomous County Rural Credit Cooperative Association(“CCCC”) (5)	306,600	287,200
Hunyuan Rural Credit Cooperative Association (6)	766,500	718,000
Bank of Jiangsu (7)	766,500	-
Bank of Nanjing (8)	1,533,000	-
Huaxia Bank (9)	3,105,488	-
Deferred financing costs (10)	-	(48,422)
<b>Total</b>	<b>\$ 6,662,048</b>	<b>\$ 8,309,098</b>

- (1) In May 2018, Beijing REIT entered into a line of credit agreement with CMB. The agreement allowed Beijing REIT to borrow a maximum of \$4.4 million (RMB30 million) loans out of this line of credit as working capital between May 3, 2018 and May 2, 2020. In April 2020, the loans were repaid upon maturity.
- (2) Beijing REIT entered into four loan agreements in January, February, April, and May 2019 with BJB to borrow approximately \$2.9 million (RMB20 million) as working capital. These loans had a term of 12 months and bore a fixed interest rate of 5.44% per annum. All these loans were guaranteed by Beijing Zhongguancun Sci-tech Financing Guaranty Co., Ltd. (“Financing Guaranty”), a third-party guaranty company and the Chief Executive Officer (“CEO”) and principal shareholders of the Company. These loans were fully repaid upon maturity in January 2020.
- (3) In June and July 2019, Beijing REIT entered into two bank loan agreements with terms of six and seven months, respectively, with BOC to borrow an aggregate of approximately \$1.5 million (RMB10 million) as working capital. The loans bore a fixed interest rate of 5.0025% per annum. These loans were also guaranteed by the principal shareholders of the Company and Financing Guaranty. The Company repaid approximately \$0.7 million (RMB5 million) before December 31, 2019 and the outstanding loan balance as of December 31, 2019 was \$718,000 (RMB5 million), which was repaid in full upon maturity in January 2020.

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 13 – SHORT-TERM LOANS (continued)**

- (4) In December 2018, REIT Changjiang entered into a loan agreement with HHMC to borrow approximately \$0.22 million (RMB1.5 million) as working capital for one year. The loan bears a fixed interest rate of 19.2% per annum. REIT Changjiang pledged its property with a carrying value of approximately \$0.2 million (RMB1.4 million) as collateral. The loan is also guaranteed by the CEO and principal shareholders of the Company. The Company repaid approximately \$0.04 million (RMB0.3 million) in December 2019. For the remaining balance of \$0.17 million (RMB1.2 million), the Company entered into a loan extension agreement with HHMC to extend the repayment date to November 11, 2020 with a fixed interest rate of 16% per month before May 11, 2020, and a fixed interest rate of 2% per month from May 11, 2020 to the actual repayment date. The Company has reached agreement with HHMC to extend the loan to September 30, 2021 subsequently.
- (5) In December 2019, REIT Construction entered into a bank loan agreement with CCCA to borrow approximately \$0.3 million (RMB 2 million) as working capital for six months. The loan bears a fixed interest rate of 8.5% per annum and is guaranteed by REIT Changjiang. Immediately before the loan maturity date, the Company entered into a loan extension agreement with CCCA to extend the loan repayment date to March 31, 2021. The Company has reached agreement with HHMC to extend the loan to December 31, 2021 subsequently.
- (6) In December 2019, REIT Datong Ruisheng entered into a bank loan agreement with Hunyuan Rural Credit Cooperative Association to borrow approximately \$0.7 million (RMB5 million) as working capital for one year. The loan bears a fixed interest rate of 8.04% per annum. The loan is guaranteed by Beijing REIT. The Company fully repaid the loan in December 2020. Subsequent to the repayment, the Company signed another bank loan agreement with Hunyuan Rural Credit Cooperative Association to borrow RMB5 million on December 10, 2020 for a year with a monthly interest rate of 6.109%.
- (7) On March 18, 2020, REIT Xinyi entered into a new line of credit agreement with Bank of Jiangsu. The agreement allows REIT Xinyi to obtain loans up to RMB5 million for use as working capital between March 18, 2020 and March 15, 2021. Pursuant to the line of credit agreement, Xinyi REIT entered into four loans in total of approximately \$0.7 million (RMB5 million), each at an annual interest rate of 4.55% with Bank of Jiangsu. The loan is guaranteed by Mr. Huizhen Hou and Mr. Dapeng Zhou. Meanwhile, REIT Xinyi also pledged land use right of 74,254.61 square meters with carrying value of RMB 9.9 million (approximately \$1.9 million) as collateral to safeguard the loan. The loans were renewed with new mature dates in September 2021.
- (8) In January and March 2020, Beijing REIT entered into two loan agreements with Nanjing Bank to borrow approximately \$1.4 million (RMB10 million). The loans have a term of 12 months and bear a fixed interest rate of 5.22% per annum. The loans are guaranteed by Financing Guaranty and the CEO and principal shareholders of the Company. The two loans were renewed in November and December 2020 with new mature dates of November 25, 2021 and December 2, 2021.
- (9) In November and December 2020, Beijing REIT entered into four loan agreements with Huaxia Bank to borrow approximately \$3.1 million (RMB20 million). The loans have terms varies from 6 to 12 months and bear a fixed interest rate of 5.655% per annum. The loans are guaranteed by Beijing Zhongguancun Technology Financing Guarantee Co., Ltd. and the CEO.
- (10) In order to obtain the guarantees provided by the third-party guaranty company for the loans from BJB, Beijing REIT incurred valuation and assessment fees. The fee was recorded as deferred financing costs and is being amortized over the term of the associated loan.

For the years ended December 31, 2020, 2019 and 2018, interest expense on all short-term loans amounted to \$481,558, \$609,097 and \$480,452, respectively.

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14 – LONG TERM BANK LOANS**

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Long-term loans</b>		
Changjiang Li Autonomous County Rural Credit Cooperative Association (“CCCA”) (1)	\$ 8,584,800	\$ 8,041,600
Dongfang Credit Cooperative Association (2)	613,055	718,000
<b>Subtotal</b>	<b>9,197,855</b>	<b>8,759,600</b>
Less: current portion of long-term loans	(2,912,555)	(1,436,100)
<b>Total</b>	<b>\$ 6,285,300</b>	<b>\$ 7,323,600</b>

(1) In June 2018, REIT Changjiang entered into a loan agreement with CCCA to borrow approximately \$8.7 million (RMB \$60 million) for the purpose of expansion of its production facilities. The loan has a term of six years from June 19, 2018 to June 19, 2024 with a fixed interest rate of 7% per annum.

REIT Changjiang pledged its land use right of 306,000 square meters and construction in progress on this land, as well as certain production lines as collaterals to secure this loan. RETO and Beijing REIT also pledged their shares in REIT Changjiang of 15.683% and 84.317%, respectively, as collateral to further secure the loan. The loan is also guaranteed by the CEO and principal shareholders of the Company. The Company repaid approximately \$0.1 million (RMB1.0 million) in fiscal 2018 and \$0.4 million (RMB3.0 million) in fiscal 2019. On May 11, 2020, REIT Changjiang obtained approval from CCCA and amended the loan repayment schedule and the repayment of \$287,000 (RMB2.0 million) that was originally scheduled on June 19, 2020 was extended to December 19, 2021. As of December 31, 2020, the outstanding balance of this loan was \$8,584,800 (RMB56 million).

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14 – LONG TERM BANK LOANS (continued)**

(2) In March 2019, REIT Construction entered into a bank loan agreement with Dongfang Credit Cooperative Association to borrow approximately \$0.7 million (RMB 5 million) as working capital for two years. The loan bears a fixed interest rate of 9.72% per annum. REIT Construction is required to repay RMB 2 million on March 26, 2020 and RMB 3 million on March 26, 2021. The loan is guaranteed by the CEO and his wife. The Company had repaid \$143,600 (RMB 1 million) before September 24, 2020. On September 24, 2020, REIT Construction obtained approval from Dongfang Credit Cooperative Association and amended the repayment schedule to defer the repayment terms of the other \$143,600 (RMB 1 million) from March 26, 2020 to January 2021.

For the years ended December 31, 2020, 2019 and 2018, interest on the Company's long-term bank loans amounted to \$654,467, \$612,080 and \$552,804, respectively.

As of the date of this report, the repayment schedule of the Company's remaining long-term bank loan is as follows:

	Repayment in RMB	Repayment in USD
2021/01/31	999,055	\$ 153,155
2021/03/31	3,000,000	459,900
2021/10/19	6,000,000	919,800
2021/11/19	1,000,000	153,300
2021/12/19	8,000,000	1,226,400
2022/03/19	6,000,000	919,800
2022/06/19	7,000,000	1,073,100
2021/12/19	7,000,000	1,073,100
2023/03/19	3,500,000	536,550
2023/06/19	3,500,000	536,550
2023/12/19	7,000,000	1,073,100
2024/06/19	7,000,000	1,073,100
<b>Total</b>	<b>59,999,056</b>	<b>\$ 9,197,855</b>



**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 15 – TAXES**

**(a) Corporate income taxes**

The Company is subject to income taxes on an entity basis on income arising in or derived from the location in which each entity is domiciled.

RETO is incorporated in the British Virgin Islands and is exempt from paying income tax. REIT Holdings is registered in Hong Kong as a holding company.

The Company's operating subsidiaries are all incorporated in the PRC and are subject to PRC income tax, which is computed according to the relevant laws and regulations in the PRC. Under the Corporate Income Tax Law of PRC, the corporate income tax rate applicable to all companies, including both domestic and foreign-invested companies, is 25%. However, Beijing REIT is recognized as a High-technology Company by Chinese government and subject to a favorable income tax rate of 15%.

The following table reconciles the statutory rate to the Company's effective tax rate:

	For the Years ended December 31,		
	2020	2019	2018
China Statutory income tax rate	25%	25.0%	25.0%
Effect of favorable income tax rate in certain entity in PRC	(0.4)%	(2.1)%	(2.4)%
Non-PRC entities not subject to PRC tax (3)	(2.8)%	2.1%	10.5%
Research & Development ("R&D") tax credit (1)	(1.7)%	0.4%	(1.4)%
Non-deductible expenses - permanent difference (2)	(2.2)%	(0.1)%	0.5%
Change in valuation allowance	(21.8)%	(34.4)%	(4.0)%
Effective tax rate	(3.9)%	(9.1)%	28.2%

(1) According to PRC tax regulations, 175% of current year R&D expense approved by the local tax authority may be deducted from tax income.

(2) Represents expenses incurred by the Company that were not deductible for PRC income tax.

(3) Represents the tax losses incurred from operations outside of China.

The breakdown of the Company's income (loss) before income tax provision is as follows:

	For the Years ended December 31,		
	2020	2019	2018
(Loss) income before income tax expense from China	\$ (13,079,878)	\$ (12,024,301)	\$ 5,188,649
Loss before income tax expense from outside of China	(1,482,026)	(919,853)	(1,492,787)
Total income (loss) before income tax provision	\$ (14,561,904)	\$ (11,104,448)	\$ 3,695,862

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 15 – TAXES (continued)**

**(a) Corporate income taxes (continued)**

Loss before income tax expense from outside of China represents the losses incurred in RETO, REIT Holdings and REIT US, which are mainly holding companies incorporated outside of China.

The income tax provision (benefit) for the years ended December 31, 2020, 2019 and 2018 were as follows:

	For the Years ended December 31,		
	2020	2019	2018
Current	\$ 569,974	\$ 514,664	\$ 1,267,356
Deferred	-	492,241	(224,882)
Total	\$ 569,974	\$ 1,006,905	\$ 1,042,474

Deferred income taxes reflect the net effects of temporary difference between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. The Company periodically evaluates the likelihood of the realization of deferred tax assets and reduces the carrying amount of the deferred tax assets by a valuation allowance to the extent it believes a portion will not be realized. Due to continuous losses incurred, the Company provided full allowance on the deferred tax assets as of December 31 2020 and 2019.

	December 31 2020	December 31 2019
<b>Deferred tax asset</b>		
Provision of doubtful accounts	\$ 628,280	\$ 3,421,260
Tax loss carried forwards	2,562,089	2,306,482
Valuation allowance on tax losses	(3,190,369)	(5,727,742)
	\$ -	\$ -

**(b) Value added tax**

The Company is subject to a value added tax (“VAT”) for selling merchandise. The applicable VAT rate is 13% (starting from May 1, 2018, VAT rate was lowered from 17% to 16%, and starting from April 1, 2019, VAT rate was further lowered to 13%) for products sold in the PRC. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of goods sold (output VAT) less VAT paid on purchases made with the relevant supporting invoices (input VAT). Under the commercial practice of the PRC, the Company pays VAT based on tax invoices issued.

**(c) Taxes Payable**

The Company’s taxes payable consists of the following:

	December 31, 2020	December 31, 2019
VAT tax payable	\$ 433,093	\$ 302,546
Corporate income tax payable	2,146,610	1,445,200
Land use tax and other taxes payable	66,902	59,031
Total	\$ 2,646,605	\$ 1,806,777

As of December 31, 2020 and 2019, the Company had tax payables of approximately \$2.6 million and \$1.8 million, respectively, mostly related to the unpaid income tax and business tax in China. For the years ended December 31, 2020 and 2019, the Company has not received any penalty and interest charge notice from local tax authorities. 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 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 the statute of limitations. The Company believes it is likely that the Company can reach an agreement with the local tax authority to fully settle its tax payables in a short term but cannot guarantee such settlement will ultimately occur.

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 15 – TAXES (continued)**

**(c) Taxes Payable (continued)**

As of December 31, 2020 and 2019, the Company had accrued tax liabilities of approximately \$2.6 million and \$1.8 million, respectively, mostly related to the unpaid income tax and business tax in China. According to PRC taxation regulation, if tax has not been fully paid, tax authorities may impose tax and late payment penalties within three years. In practice, the local tax authority is typically more flexible and willing to provide incentives or settlements with local small and medium-size businesses to relieve their burden and to stimulate the local economy. Management has discussed with local tax authorities regarding the outstanding tax payable balance and is in the process of negotiating a settlement plan agreement. Local tax authorities have not made a determination as of December 31, 2020. Therefore, there was no interest and penalty accrued as of December 31, 2020 because the Company has not received any penalty and interest charge notice from local tax authorities. The Company believes it is likely that the Company can reach an agreement with the local tax authority to fully settle its tax liabilities within fiscal 2020 but cannot guarantee such settlement will ultimately occur.

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

**Contingencies**

From time to time, the Company is a party to various legal actions arising in the ordinary course of business. The majority of these claims and proceedings are related to, or arise from, lease disputes, commercial disputes, worker compensation complaints, default on guaranteeing third-party lease obligations, and default on loans. The Company first determines whether a loss from a claim is probable, and if it is reasonable to estimate the potential loss, the loss will be accrued. The Company discloses a range of possible losses, if a loss from a claim is probable but the amount of loss cannot be reasonably estimated.

**Guaranties**

On March 17, 2017, Reit Changjiang entered into a guarantee agreement to guarantee the payment obligations of the Company's related party, Changjiang Zhongrong Hengde Environmental Protection Co., Ltd., to CCCA. The guaranteed principal creditor's right is approximately \$3.8 million (RMB25,000,000). The guarantee was still effective as of December 31, 2020.

**Contractual commitments**

As of December 31, 2020, the Company's contractual obligations consisted of the following:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Operating lease commitment	\$ 367,491	125,885	241,606	-	\$ -
Repayment of bank loans	15,859,903	9,574,603	5,212,200	1,073,100	-
<b>Total</b>	<b>\$ 16,227,394</b>	<b>9,700,488</b>	<b>5,453,806</b>	<b>1,073,100</b>	<b>\$ -</b>

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 17 – RELATED PARTY TRANSACTIONS**

The Company records transactions with various related parties. These related party balances as of December 31, 2020 and 2019 and transactions for the years ended December 31, 2020, 2019 and 2018 are identified as follows:

**(1) Related parties with transactions and related party relationships**

<b>Name of Related Party</b>	<b>Relationship to the Company</b>
Mr. Hengfang Li	CEO and Chairman of the Board of Directors
Ms. Hong Ma	Wife of the CEO
Reto International Trading Co. Ltd	The owner of the entity holds more than 5% of the Company's outstanding common stock
Q Green Techcon Private Limited	Owned by the minority Shareholder of REIT India
Shexian Ruibo Environmental Science and Technology Co., Ltd (Shexian Ruibo)	The Company owns 41.67% ownership interest in Shexian Ruibo
Zhongrong Honghe Eco Construction Materials Co., Ltd	An entity controlled by the CEO's wife
Changjiang Zhongrong Hengde Environmental Protection Co., Ltd.	An entity controlled by the CEO's wife
Hunyuan Baiyang Food Co., Ltd.	An entity controlled by the CEO

**(2) Due to related parties**

As of December 31, 2020 and 2019, the balance of due to related parties were as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Mr. Hengfang Li	\$ 764,533	\$ 405,222

Mr. Hengfang Li is the Chief Executive Officer ("CEO") and major shareholder of the Company. Mr. Li periodically provides working capital loans to support the Company's operations when needed. Such advance was non-interest bearing and due on demand.

**(3) Accounts receivable from related parties**

Accounts receivable from related party consisted of the following:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Accounts receivable – related party		
- Reto International Trading Co. Ltd	\$ 202,074	\$ 469,474
Total accounts receivable from related party	\$ 202,074	\$ 469,474

The Company fully collected the December 31, 2020 accounts receivable from related parties as of the date of this report.

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 17 – RELATED PARTY TRANSACTIONS (continued)**

**(4) Advance to supplier, related party**

Advance to suppliers, related party, consisted of the following:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Advance to supplier – related party		
- Q Green Techcon Private Limited	\$ 162,014	\$ -
Shexian Ruibo*	3,872,110	
<b>Total</b>	<b>\$ 4,034,124</b>	<b>\$ -</b>

\* the balance represents the Company's purchase advances for eco-material and equipment supplied by Shexian Ruibo. Shexian Ruibo is committed to deliver the related materials and equipment in aggregated of approximately \$2.1 million by July 31, 2021 based on the purchase orders between the Company and Shexian Ruibo. The rest of prepayments are expected to be fully utilized before the fourth quarter of 2021.

**(5) Accounts payable to related party**

Accounts payables to related parties consisted of the following:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Accounts payable – related part		
- Q Green Techcon Private Limited	\$ -	\$ 1,361,253
- Shexian Ruibo.	153,344	123,796
<b>Total</b>	<b>\$ 153,344</b>	<b>\$ 1,485,049</b>

**(6) Sales to related parties**

Sales to related parties consisted of the following:

	<b>For the years ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Sales to related parties			
Zhongrong Honghe Eco Construction Materials Co., Ltd	\$ -	\$ -	\$ 56,767
Changjiang Zhongrong Hengde Environmental Protection Co., Ltd.	-	-	233,559
Hunyuan Baiyang Food Co., Ltd.	-	83,972	-
Reto International Trading Co. Ltd.	-	-	1,139,440
Shexian Ruibo	228,814		
<b>Total</b>	<b>\$ 228,814</b>	<b>\$ 83,972</b>	<b>\$ 1,940,811</b>

Cost of revenue associated with the sales to these related parties amounted to \$148,034, \$54,598 and \$1,372,302 for the years ended December 31, 2020, 2019, and 2018, respectively.

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 17 – RELATED PARTY TRANSACTIONS (continued)**

**(7) Purchases from related parties**

Purchases from related parties consisted of the following:

	For the years ended December 31,		
	2020	2019	2018
Purchase from a relate party			
Shexian Ruibo	\$ 1,837,841	\$ -	\$ 5,843,564
Q Green Techcon Private Limited.	1,039,152	2,021,934	-
<b>Total</b>	<b>\$ 2,876,993</b>	<b>\$ 2,021,934</b>	<b>\$ 5,843,564</b>

**(8) Loan guarantees provided by related parties**

The Company's principal shareholders also provide personal guarantees for certain of the Company's short-term loans and long-term bank loans.

**(9) Guarantees provided to related parties**

On March 17, 2017, Reit Changjiang entered into a guarantee agreement to guarantee the payment obligations of the Company's related party, Changjiang Zhongrong Hengde Environmental Protection Co., Ltd., to Changjiang Li Autonomous County Rural Credit Cooperatives. The guaranteed principal creditor's right is approximately \$3.8 million (RMB 25,000,000). The guarantee was still effective as of December 31, 2020.

**(10) Other related party transactions**

On September 7, 2020, Beijing REIT entered into a share transfer agreement with the original shareholder of Shexian Ruibo for the acquisition of a 41.67% ownership interest in Shexian Ruibo for a total consideration of \$3.6 million (RMB 25 million), including a cash payment of \$2.8 million (RMB 18.5 million) and a non-cash contribution of six patents valued at \$0.9 million (RMB 6.5 million). The cash consideration was fully paid for the year ended December 31, 2020.

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**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 18 – EQUITY**

**Statutory reserve**

The Company is 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 GAAP 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 restricted amounts as determined pursuant to PRC statutory laws totaled \$2,386,119 and \$2,632,797 as of December 31, 2020 and 2019.

**Shares issuances**

The Company is a company limited by shares established under the laws of the British Virgin Islands with 200,000,000 common shares authorized at \$0.001 par value. As of December 31, 2020 and 2019, 24,135,000 and 23,160,000 common shares were issued and outstanding.

On September 5, 2019, the Company entered into a consulting service agreement with FirstTrust Group, Inc. (“FirstTrust”), pursuant to which FirstTrust would assist the Company with strategic initiatives over the service period from August 16, 2019 to August 15, 2020. The Company issued 400,000 of its common shares valued at \$448,000 based on the fair market price of the Company’s shares, at \$1.12 per share on September 5, 2019. The stock-based compensation is amortized over the service period. The Company recognized stock-based compensation expenses of \$280,000 and \$168,000 for the years ended December 31, 2020 and 2019, respectively.

Pursuant to the Company’s 2018 Incentive Plan, on January 22, 2020, the Company’s board of directors approved the issuance of an aggregate of 685,000 common shares of the Company with a fair value of \$650,750 based on the Company’s share price of \$0.95 per share at the grant date, as stock-based compensation to its directors and executives in exchange for their services for the period from January 1, 2020 to December 31, 2021. For the years ended December 31, 2020, the Company recognized stock-based compensation expenses of \$325,375.

In addition, on February 3, 2020, the Company’s board of directors further approved the issuance of 290,000 common shares of the Company with a fair value of \$333,500 based on the Company’s share price of \$1.15 per share at the grant date, to award certain employees and one officer, in exchange for their services during the period from January 1, 2020 to December 31, 2021. For the years ended December 31, 2020, the Company recognized stock-based compensation expenses of \$166,750.

**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 19 – SEGMENT REPORTING**

ASC 280, “Segment Reporting”, establishes standards for reporting information about operating segments on a basis consistent with the Company’s internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for details on the Company’s business segments. The Company uses the “management approach” in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company’s chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company’s reportable segments. Management, including the chief operating decision maker, reviews operation results by the revenue of different products or services. Based on management’s assessment, the Company has determined that it has four operating segments as defined by ASC 280, including machinery and equipment, construction material, municipal construction projects, and technology consulting and other services.

Construction material segment manufactures and sells eco-friendly construction material. Machinery and equipment segment manufactures and sells machinery and equipment used to manufacture construction material. Construction service segment generates revenue from contracting municipal construction projects. Technological consulting service segment generates revenue from providing environmental-protection related consulting services to customers.

The following table presents summary information by segments for the Company’s continuing operations for the years ended December 31, 2020, 2019 and 2018, respectively:

<b>For the year ended December 31, 2020</b>					
	<b>Machinery and Equipment sales</b>	<b>Construction materials sales</b>	<b>Municipal construction projects</b>	<b>Technological consulting and other services</b>	<b>Total</b>
Revenues	\$ 6,528,080	\$ 3,099,725	\$ 106,695	\$ -	\$ 9,734,500
Cost of goods sold	4,429,869	4,136,657	10,611	-	8,577,137
Gross profit	2,098,211	(1,036,932)	96,084	-	1,157,363
Interest expense and charges	672,779	735,683	136,053	-	1,544,515
Depreciation and amortization	164,538	1,993,462	4,110	-	2,162,110
Capital expenditures	6,900	242,593	-	-	249,493
Income tax expenses	569,974	-	-	-	569,974
Segment loss	(559,625)	(12,082,530)	(258,453)	-	(12,900,608)
Segment assets	\$ 16,389,063	\$ 41,233,143	\$ 347,917	\$ 3,950	\$ 57,974,073

<b>For the year ended December 31, 2019</b>					
	<b>Machinery and Equipment sales</b>	<b>Construction materials sales</b>	<b>Municipal construction projects</b>	<b>Technological consulting and other services</b>	<b>Total</b>
Revenues	\$ 14,049,051	\$ 15,323,690	\$ 178,986	\$ -	\$ 29,551,727
Cost of goods sold	9,420,539	12,730,843	39,775	-	22,191,157
Gross profit	4,628,512	2,592,847	139,211	-	7,360,570
Interest expense and charges	633,483	562,971	52,922	4,480	1,253,855
Depreciation and amortization	175,142	1,972,980	8,697	-	2,156,819
Capital expenditures	452,327	983,725	18,923	-	1,454,975
Income tax expenses	389,874	617,031	-	-	1,006,905
Segment loss	(2,982,674)	(7,956,271)	(304,433)	(1,052,740)	(12,296,118)
Segment assets	\$ 19,150,283	\$ 51,280,425	\$ 356,424	\$ 8,111	\$ 70,795,244



**RETO ECO-SOLUTIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 19 – SEGMENT REPORTING (continued)**

	For the year ended December 31, 2018				
	Machinery and Equipment sales	Construction materials sales	Municipal construction projects	Technological consulting and other services	Total
Revenues	\$ 9,178,331	\$ 18,805,539	\$ 720,191	\$ 590,808	\$ 29,294,869
Cost of goods sold	2,951,851	11,600,016	537,076	180,505	15,269,448
Gross profit	6,226,480	7,205,523	183,115	410,303	14,025,421
Interest expense and charges	480,676	585,242	473	3,367	1,069,758
Depreciation and amortization	86,005	1,508,016	13,420	-	1,607,441
Capital expenditures	235,417	9,034,223	-	-	9,269,640
Income tax expenses	(243,698)	1,283,697	1,675	800	1,042,474
Segment profit (loss)	772,928	3,613,721	(68,077)	(1,665,184)	2,653,388
Segment assets as of December 31, 2018	\$ 21,607,155	\$ 58,775,391	\$ 716,909	\$ 905,465	\$ 82,004,922

**NOTE 20 – SUBSEQUENT EVENTS**

On March 1, 2021, the Company entered into a securities purchase agreement (the “Agreement”) with an accredited investor (the “Debenture Holder”) to place a Convertible Debenture (the “Debenture”) with a maturity date of twelve months after the issuance thereof in the aggregate principal amount of up to \$2,300,000 (the “Transaction”), provided that in case of an event of default, the Debenture may become at the Debenture Holder’s election immediately due and payable. In addition, the Company paid to an affiliate of the Debenture Holder a fee equal to 3.5% of the amount of the Debenture and a one-time due diligence and structuring fee of \$10,000 at the closing.

The Debenture Holder may convert the Debenture in its sole discretion to Company’s common shares at any time at the lower of \$2.50 or 95% of the average of the two lowest daily VWAPs during the ten consecutive trading days immediately preceding the conversion date, provided that the conversion price may not be less than \$0.50 (the “Floor Price”). The Debenture Holder may not convert any portion of a Debenture if such conversion would result in the Debenture Holder beneficially owning more than 4.99% of Company’s then issued and common shares, provided that such limitation may be waived by the Debenture Holder with 65 days’ notice. Any time after the issuance of a Debenture that the daily VWAP is less than the Floor Price for a period of 10 consecutive trading days (each such occurrence, a “Triggering Event”) and only for so long as such conditions exist after a Triggering Event, the Company shall make monthly payments beginning on the 30<sup>th</sup> day after the date of the Triggering Event. Each monthly payment shall be in an amount equal to the sum of (i) the principal amount outstanding as of the date of the Triggering Event divided by the number of such monthly payments until maturity, (ii) a redemption premium of 20% of such principal amount and (iii) accrued and unpaid interest hereunder as of each payment date.

On April 22, 2021, the Company decided to issue 1,000,000 ordinary shares to Geniusland International Capital Ltd., a British Virgin Islands company for services rendered in connection with Company’s corporate strategy on the Nasdaq Stock Market.

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**Exhibit 10.1**

**Consultation Service Agreement**

This "Consultation Service Agreement" (referred to as "Agreement") is entered into by and between Reto Eco-Solutions, INC. (NASDAQ: RETO) (referred to as "Company or Party A") and Geniusland International Capital Ltd., a company incorporated at BVI (referred to as "Consultant or Party B"), on April 21, 2021 and effective retroactively as of January 23rd, 2021.

Whereas, the "Consultant" can provide the Company and its affiliates with professional and scientific consulting services on management, operation, business development and mergers and acquisitions, the "Company" intends to hire the "Consultant" to provide professional consulting services, and the "Consultant" intends to accept the appointment, therefore, Party A and Party B, based on the principle of mutual benefit, reached the following agreement through friendly negotiation:

**I. Term of Agreement: The term of this agreement is three years, from January 23, 2021 to January 22, 2024.**

**II. Liability and Obligations of the Consultant or Party B**

1. Assist the Company in planning and implementing future development plans to promote the Company's long-term growth and create value for shareholders.
2. Provide the Company's board of directors and management with all consultations in the benefit of the company's development (such as business opportunities and risk assessment, company internal control, etc.).
3. Assist the Company in finding strategic partners at home in China and abroad, and assist the Company in negotiating specific contracts, as well as providing consulting services for the Company's mergers and acquisitions.
4. Cooperate with the Company's internal and external professional consultants to ensure the Company, as a U.S. listed company, is in consistence with all laws, regulations and rules applicable to the Company.

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5. Identify potential merger and acquisition targets for the Company, and provide necessary business analysis, evaluation and due diligence for the target company according to the Company's requirements, and provide the Company with consulting services on specific mergers and acquisitions matters or transactions.

6. According to the Company's development needs, introduce strategic partners and capital for the Company through debt or equity before the F3 can be issued.

7. After the agreement is signed, assist the company with its F-1 filing, and the specific form thereof shall be determined through negotiation by both parties.

### **III. Liability and Obligations of the Company or Party A**

1. After this agreement is signed, Party A should provide substantial support for the Company's business operations upon the requirement of Party B.

2. Perfect the company's board of directors and company management within 30 days after the signing of this agreement. The specific content thereof is subject to the agreements of both parties.

### **IV. Party B's Remuneration**

As a consideration for the Consultant to provide the consulting services described in this Agreement, the Company agrees to pay the Consultant remuneration in the following manner:

1. For the first year, instead of the cash fee for providing services to the Company, the Consultant shall be paid the consultant and its designee(s) or assignee(s) service fee of 1 million shares of the Company's common stocks, each share with a par value of US\$0.001, which refer to the restricted shares under the Securities Act of 1933 (as amended from time to time), of which the lock-up period for 500,000 restricted shares is 6 months, and the lock-up period for the other 500,000 restricted shares is 8 months. These shares must be issued to the Consultant at one time and the Company must try its utmost to cause such shares to be issued to the Consultant. Company acknowledged that substantial services have been provided by the Consultant to date. All shares will be deemed to have been paid in full after they are issued (i.e., all consideration has been provided). The Consultant refers to an investor defined under Section S of the Securities Act of 1933, who has been officially approved.

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2. The above-mentioned 1 million shares of the Company's restricted common stocks shall be issued to Party B on the day when the Company and the investor sign the formal investment agreement, and the 144 Share Decoded File for the expiry date of such restricted shares shall also be signed at the same time. Party A must ensure the successful decoding on the expiration of the restricted date of such shares. If the shares issued to Party B cannot be successfully decoded on time after the expiry date due to Party A's reason, Party A should pay Party B cash compensation, which is equivalent to the average share price of the five trading days after the expiry date multiplied by the number of shares.

3. Within 30 business days before the end of the first year of this service agreement, under the framework of paying 1 million shares of the Company's restricted common stocks each year, both parties should negotiate and sign the second year remuneration agreement for Party B's services, the third year alike.

#### **V. Relationship between Two Parties**

1. Both parties understand that the Consultant is not an employee or representative of the Company, and this Agreement does not constitute any employment relations or partnership. The company will not deduct any federal and state income tax, social security tax, unemployment tax, and labor insurance from the Consultant's income, which shall be reported and paid by the Consultant to the government.

2. Before obtaining the Company's written consent in advance, the Consultant has no right to sign any agreement, contract or letter of intent and other legal documents on behalf of the Company.

3. Since the following services require relevant licenses, the Company understands that the Consultant does not provide: (a) legal opinions; (b) accounting services; (c) financial services; or (d) brokerage services limited by any federal or state securities laws in the United States.

4. On the premise that the Consultant makes every endeavour to provide services to the Company, the Company understands and agrees that the Consultant's services may not guarantee the final result or impact .

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## **VI. Confidentiality**

The Consultant agrees to strictly hold the Company and its subsidiaries' business, operations or prospects confidential. Without the Company's prior written consent, except for the Company's lawyers, auditors, commercial and investment banks, the Consultant is not allowed to disclose the Company's business secrets and other confidential information to any third parties. The Consultant agrees to sign a reasonable commercial confidentiality agreement and an agreement to prohibit internal transactions.

## **VII. Modification, Termination and Continuation of the Agreement**

1. Any additions, deletions, or modification to this Agreement must be confirmed by both parties in written before it becomes effective. This Agreement also bind both parties' heirs, trustees or legal agents of other forms.
2. If the corresponding investment funds introduced by Party B have been digested in the market or its remaining part has been redeemed by the Company, the Agreement can be terminated in advance, otherwise it will be deemed as Party A's breach of contract and Party A shall bear the compensation liability corresponding to investment funds for breach of contract.
3. If the investment funds introduced by Party B have not been digested in the market or its remaining part has not been redeemed by the Company, this Agreement cannot be terminated even if it expires and the term of the Agreement shall continue until the investment funds have been digested in the market.

## **VIII. No Assignment Agreement**

Any attempt to transfer this Agreement to a third party will be invalid.

## **IX. Dispute Resolution**

Any dispute arising from or related to this contract should be resolved through friendly negotiation by both parties, if failed, it shall be submitted to the Hong Kong International Arbitration Center for settlement.

## **X. Signing and Effectiveness**

This agreement will take effect immediately after signed by two parties and replace any previously signed agreements. Both Chinese and English version have the same legal effect.

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**This page is for signature**

**Party A:RETO ECO-SOLUTIONS INC**

Representative Name:LI HENGHANG

Position: Chairman of Board

Signature

**Party B: GENIUSLAND INTERNATIONAL CAPITAL LTD**

Representative Name: Zhu Shike

Position: Executive Director

Signature

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Exhibit 12.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
OF REGISTRANT PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(RULE 13a-14(a) or 15d-14(a) OF THE EXCHANGE ACT)**

I, Hengfang Li, certify that:

1. I have reviewed this quarterly report on Form 20-F of ReTo Eco-Solutions, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly for the period in which this quarterly 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;
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

**ReTo Eco-Solutions, Inc.**

Dated: May 14, 2021

By: /s/ Hefang Li  
Hefang Li  
Chief Executive Officer

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**Exhibit 12.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Xingchun Wang, certify that:

1. I have reviewed this Annual Report on Form 20-F of ReTo Eco-Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 controls 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.

**ReTo Eco-Solutions, Inc.**

Dated: May 14, 2021

By: /s/ Xingchun Wang  
Xingchun Wang  
Chief Financial Officer



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**Exhibit 13.1**

**CERTIFICATION OF 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 ReTo Eco-Solutions, Inc. (the "Company") on Form 20-F for the period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), Hefang Li, Chief Executive Officer of the Company, certifies, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

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

**ReTo Eco-Solutions, Inc.**

Dated: May 14, 2021

By: /s/ Hefang Li  
Hefang Li  
Chief Executive Officer

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**Exhibit 13.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL 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 ReTo Eco-Solutions, Inc. (the "Company") on Form 20-F for the period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), Xingchun Wang, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

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

**ReTo Eco-Solutions, Inc.**

Dated: May 14, 2021

By: /s/ Xingchun Wang  
Xingchun Wang  
Chief Financial Officer

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**Exhibit 21.1**

**RETO ECO-SOLUTIONS, INC.  
List of Subsidiaries**

<b>Company Name</b>	<b>Country of Incorporation/Formation</b>	<b>Ownership</b>
REIT Holdings (China) Limited (“REIT Holdings”)	Hong Kong	Wholly-owned Hong Kong subsidiary
Beijing REIT Technology Development Co., Ltd. (“Beijing REIT”)	China	Wholly-owned subsidiary of REIT Holdings
Xinyi REIT Ecological Technology Co., Ltd. (“REIT Ecological”)	China	Wholly-owned subsidiary of REIT Holdings
Gu’an REIT Machinery Manufacturing Co., Ltd. (“Gu’an REIT”)	China	Wholly-owned subsidiary of Beijing REIT
Beijing REIT Ecological Engineering and Technology Co., Ltd. (“REIT Eco Engineering”)	China	Wholly-owned subsidiary of Beijing REIT
Langfang Ruirong Mechanical and Electrical Equipment Co., Ltd. (“Ruirong”)	China	Wholly-owned subsidiary of Beijing REIT
Nanjing Dingxuan Environment Protection Technology Development Co., Ltd. (“Dingxuan”)	China	Wholly-owned subsidiary of Beijing REIT
REIT Technology Development (America), Inc.	USA	Wholly-owned subsidiary of Beijing REIT
REIT Mingsheng Environment Protection Construction Materials (Changjiang) Co., Ltd. (“REIT Changjiang”)	China	Owned 84.32% by Beijing REIT and 15.68% by REIT Holdings
Hainan REIT Construction Project Co., Ltd.	China	Wholly-owned subsidiary of REIT Changjiang
REIT Xinyi New Material Co., Ltd (“REIT Xinyi”)	India	Wholly-owned subsidiary of Beijing REIT
REIT Q Green Machines Private Limited	India	51% owned subsidiary of Beijing REIT
REIT Ecological Technology Co., Ltd. (“REIT Yancheng”)	China	Wholly-owned subsidiary of REIT Holdings
Datong Ruisheng Environment Protection Engineering Co., Ltd. (“Datong Ruisheng”)	China	Wholly-owned subsidiary of REIT Eco Engineering
Yunnan Litu Technology Development Co., Ltd. (“Yunnan Litu”)	China	55% owned by REIT Yancheng
Yangbi Litu Ecological Technology Co., Ltd. (“Yangbi Litu”)	China	55% owned subsidiary of REIT Yancheng