10-Q 1 hai_10q.htm QUARTERLY REPORT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

☑ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the six months ended June 30, 2016.

OR

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

For the transition period from _____ to _____ .

Commission file number: 333-194748

HotApp International Inc.
(Exact name of registrant in its charter)

Delaware	**47-4742558**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4800 Montgomery Lane, Suite 210, Bethesda MD	**20814**
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number: 202.524.6869

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark whether the registrant (1) has filed all reports required 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 day. **Yes** ☑·**No** ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐·No ☐
(Does not currently apply to the Registrant)

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

Large accelerated filter	☐	Accelerated filter	☐
Non-accelerated filter	☐	Smaller reporting company	☑
(Do not check if a smaller reporting company)			

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding August 15, 2016
Common Stock, $0.001 par value per share	5,909,687 shares

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION		
ITEM 1.	INTERIM FINANCIAL STATEMENTS	3
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.	13
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	18
ITEM 4.	CONTROLS AND PROCEDURES	18
PART II OTHER INFORMATION		
ITEM 1.	LEGAL PROCEEDINGS	19
ITEM 1A	RISK FACTORS	19
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	19
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	19
ITEM 4.	MINE SAFETY DISCLOSURES	19
ITEM 5.	OTHER INFORMATION	19
ITEM 6.	EXHIBITS	19
SIGNATURES		20

PART I FINANCIAL INFORMATION

ITEM 1. INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015 4

Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2016 and 2015 (unaudited) 5

Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 (unaudited) 6

Notes to Condensed Consolidated Financial Statements 7

HOTAPP INTERNATIONAL INC

CONDENSED CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2016 (UNAUDITED) AND DECEMBER 31, 2015

	6/30/16	12/31/15
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 62,952	$ 495,136
Prepaid expenses	2,580	26,492
Deposit	19,293	4,154
TOTAL CURRENT ASSETS	84,825	525,782
Fixed assets, net	76,133	192,308
Deposits	6,333	24,631
TOTAL ASSETS	**$ 167,291**	**$ 742,721**
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 323,360	$ 379,379
Amount due to related parties	16,016	-
Accrued taxes	7,286	250
TOTAL CURRENT LIABILITIES	346,662	379,629
TOTAL LIABILITIES	346,662	379,629
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock, $0.0001 par value, 15,000,000 shares authorized, 13,800,000 issued and outstanding	1,380	1,380
Common stock, $.0001 par value, 500,000,000 shares authorized, 5,909,687 shares issued and outstanding, as of June 30, 2016 and December 31, 2015, respectively	591	591
Accumulated other comprehensive loss	(267,040)	(152,719)
Additional paid-in capital	4,202,020	4,202,020
Accumulated deficit	(4,116,322)	(3,688,180)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(179,371)	363,092
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 167,291**	**$ 742,721**

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

HOTAPP INTERNATIONAL INC

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

	Quarter Ended June 30, 2016	Quarter Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Operating expenses:				
Research and product development	$ 65,440	$ 285,527	$ 203,887	$ 554,216
Sales and marketing	(59)	119,636	(64,635)	176,965
Depreciation	9,866	9,179	24,075	15,817
General and administrative	124,578	233,771	370,283	367,073
Total operating expenses	**199,825**	**648,113**	**533,610**	**1,114,071**
(Loss) from operations	**(199,825)**	**(648,113)**	**(533,610)**	**(1,114,071)**
Interest income / expense	1		1	
Foreign exchange (loss) / gain	111,750	424	112,504	426
Total other income (expenses)	**111,751**	**(647,689)**	**112,505**	**(1,113,645)**
Loss before taxes	**(88,074)**	**(647,689)**	**(421.105)**	**(1,113,645)**
Income tax provision	-		(7,037)	
Net loss applicable to common shareholders	**$ (88,074)**	**$ (647,689)**	**$ (428,142)**	**$ (1,113,645)**
Net loss per share - basic and diluted	$ (0.01)	$ (0.13)	$ (0.07)	$ (0.22)
Weighted number of shares outstanding - Basic and diluted	5,909,687	5,132,000	5,909,687	5,132,000
Comprehensive Income Loss:				
Net loss	$ (88,074)	$ (647,689)	$ (428,142)	$ (1,113,645)
Foreign currency translation gain (loss)	(111,078)	(35,779)	(114,321)	6,765
Total comprehensive loss	**$ (199,152)**	**$ (683,468)**	**$ (542,463)**	**$ (1,106,880)**

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

HOTAPP INTERNATIONAL INC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	**$ (428,142)**	**$ (1,113,645)**
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	24,075	15,817
Foreign exchange transaction gain	(112,504)	-
Change in operating assets and liabilities:		
Prepaid expenses	27,071	(3,648)
Accounts payable and accrued expenses	(40,003)	(97,098)
Accrued taxes payable	7,036	(3,564)
Security deposit and other assets	-	(13,943)
Net cash used in operating activities	**$ (522,467)**	**$ (1,216,081)**
CASH FLOW FROM INVESTING ACTIVITIES:		
Acquisition of fixed asset	(1,668)	(38,803)
Proceeds from sale of fixed assets	93,768	-
Net cash provided by (used in) investing activities	**$ 92,100**	**$ (38,803)**
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayment of shareholder loan	-	(437,610)
Net cash used in financing activities	**$ -**	**$ (437,610)**
NET DECREASE IN CASH	(430,367)	(1,692,494)
Effects of exchange rates on cash	(1,817)	(85,818)
CASH AND CASH EQUIVALENTS at beginning of period	**495,136**	**4,009,884**
CASH AND CASH EQUIVALENTS at end of period	**$ 62,952**	**$ 2,231,572**
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	$ -	$ -
Income Taxes	$ -	$ -

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

HOTAPP INTERNATIONAL INC

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company History and Nature of the Business

Hotapp International Inc, formerly Fragmented Industry Exchange Inc, (the "Company" or "Group") was incorporated in the State of Delaware on March 7, 2012 and established a fiscal year end of December 31. The Company's initial business plan was to be a financial acquisition intermediary which would serve buyers and sellers for companies that are in highly fragmented industries. The Company determined it was in the best interest of the shareholders to expand its business plan. On October 15, 2014, through a sale and purchase agreement (the "Purchase Agreement") the Company acquired all the issued and outstanding stock of HotApps International Pte Ltd (the "HIP") from Singapore eDevelopment Limited ("SeD"). HIP owned certain intellectual property relating to instant messaging for portable devices (the "HotApp"). HotApp is a cross-platform mobile application that incorporates instant messaging and ecommerce. It provides a messaging and calling services for HotApp users (text, photo, audio). HotApp can be used on any mobile platform (i.e. IOS Online or Android).

Pursuant to the Purchase Agreement, the Company issued SED 1,000,000 shares of common stock and 13,800,000 shares of newly created convertible preferred stock. See Note 8 for further description.

As of June 30, 2016, details of the Company's subsidiaries are as follows:

Subsidiaries	Date of Incorporation	Place of Incorporation	Percentage of Ownership
1st Tier Subsidiary:			
HotApps International Pte Ltd ("HIP")	May 23, 2014	Republic of Singapore	100% by Company
2nd Tier Subsidiaries:			
HotApps Call Pte Ltd	September 15, 2014	Republic of Singapore	100% owned by HIP
HotApps Information Technology Co Ltd	November 10, 2014	People's Republic of China	100% owned by HIP
HotApp International Limited*	July 8, 2014	Hong Kong (Special Administrative Region)	100% owned by HIP

* On March 25, 2015, HotApps International Pte Ltd acquired 100% of issued share capital in HotApp International Limited.

The financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. Since inception, the Company has incurred net losses of $4,116,322 and has net working capital deficit of $261,837 at June 30, 2016. Accordingly, these factors raise substantial doubt as to the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty. Our ability to continue as a going concern is dependent upon achieving sales growth, management of operating expenses and ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due, and upon profitable operations.

Our majority shareholder has advised us not to depend solely on it, for financing. We have increased our efforts to raise additional capital through equity or debt financings from other sources. However, we cannot be certain that such capital (from our shareholders or third parties) will be available to us or whether such capital will be available on terms that are acceptable to us. Any such financing likely would be dilutive to existing stockholders and could result in significant financial operating covenants that would negatively impact our business. If we are unable to raise sufficient additional capital on acceptable terms, we will have insufficient funds to operate our business or pursue our planned growth.

Note 2. Summary of Significant Accounting Policies

Basis of presentation

The condensed consolidated balance sheet at December 31, 2015 was derived from audited financial statement but does not include all disclosures required by accounting principles generally accepted in the United States of America. The other information in these condensed financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair

presentation of the results for the periods covered. All such adjustments are of a normal recurring nature unless disclosed otherwise. These condensed financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed financial statements should be read in conjunction with the financial statements and additional information as contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

Basis of consolidation

The consolidated financial statements of the Group include the financial statements of Hotapp International Inc and its subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues, cost and expenses in the financial statements and accompanying notes. Significant accounting estimates reflected in the Group's consolidated financial statements include revenue recognition, the useful lives and impairment of property and equipment, valuation allowance for deferred tax assets and share-based compensation.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments, which are unrestricted from withdrawal or use, or which have original maturities of three months or less when purchased.

Foreign currency risk

Because of its foreign operations, the Company holds cash in non-US dollars. As of June 30, 2016, cash and cash equivalents of the Group includes, on an as converted basis to US dollars $11,044, $4,591 and $37,296 in Hong Kong Dollars ("HK$"), Reminbi ("RMB") and Singapore Dollars ("S$"), respectively.

The Renminbi ("RMB") is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market.

Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents. The Group places their cash with financial institutions with high-credit ratings and quality.

Fixed assets, net

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Office equipment	3 years
Computer equipment	3 years
Furniture and fixtures	3 years
Motor vehicles	10 years

Fair value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Revenue recognition

The Group recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. The Group currently has no revenue but plans to derive its revenue from membership subscription services, offering the platform for Enterprise Collaboration with integration and consulting services revenue on project basis.

Research and development expenses

Research and development expenses primarily consist of (i) salaries and benefits for research and development personnel, and (ii) office rental, general expenses and depreciation expenses associated with the research and development activities. The Company's research and development activities primarily consist of the research and development of new features for its mobile platform and its self-developed mobile games. Expenditures incurred during the research phase are expensed as incurred.

Income taxes

Current income taxes are provided for in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized when temporary differences exist between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Net operating loss carry forwards and credits are applied using enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that a portion of or all of the deferred tax assets will not be realized. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics.

The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes. The Group did not recognize any income tax due to uncertain tax position or incur any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2015 or 2014, respectively.

Uncertainties exist with respect to the application of the New EIT Law to our operations, specifically with respect to our tax residency. The New EIT Law specifies that legal entities organized outside of the PRC will be considered residents for PRC income tax purposes if their "de facto management bodies" as "establishments that carry on substantial and overall management and control over the operations, personnel, accounting, properties, etc. of the Company." Because of the uncertainties that have resulted from limited PRC guidance on the issue, it is uncertain whether our legal entities outside the PRC constitute residents under the New EIT Law. If one or more of our legal entities organized outside the PRC were characterized as PRC residents, the impact would adversely affect our results of operations.

Foreign currency translation

The functional and reporting currency of the Company is the United States dollar ("U.S. dollar"). The financial records of the Company's subsidiaries located in Singapore, Hong Kong and the PRC are maintained in their local currencies, the Singapore Dollar (S$), Hong Kong Dollar (HK$) and Renminbi ("RMB"), which are also the functional currencies of these entities.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into functional currency at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains and losses are recognized in the statement of operations.

The Company's entities with functional currency of Renminbi, Hong Kong Dollar and Singapore Dollar, translate their operating results and financial positions into the U.S. dollar, the Company's reporting currency. Assets and liabilities are translated using the exchange rates in effect on the balance sheet date. Revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of comprehensive income (loss).

For the six months ended June 30, 2016, the Company recorded other comprehensive loss from translation loss of $114,321 in the consolidated financial statements.

Operating leases

Leases where the rewards and risks of ownership of assets primarily remain with the lessor are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statements of operations on a straight-line basis over the lease periods.

Comprehensive income (loss)

Comprehensive income (loss) includes gains (losses) from foreign currency translation adjustments. Comprehensive income (loss) is reported in the consolidated statements of operations and comprehensive loss.

Loss per share

Basic loss per share is computed by dividing net loss attributable to shareholders by the weighted average number of shares outstanding during the period.

The Company's convertible preferred shares are not participating securities and have no voting rights until converted to common stock. As of June 30, 2016, no shares of preferred stock are eligible for conversion into voting common stock.

Recent accounting pronouncements not yet adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which amends the existing accounting standards for revenue recognition. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delays the effective date of ASU 2014-09 by one year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. We do not expect the adoption of this guidance to have a significant effect on our consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU 2015-17), which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The updated standard is effective for us beginning on January 1, 2017. We do not expect the adoption of this guidance to have a significant effect on our consolidated financial statements.

Note 3. FIXED ASSETS, NET

Fixed assets, net consisted of the following:

	June 30, 2016	December 31, 2015
Computer equipment	$ 69,471	$ 69,002
Office equipment	20,308	20,787
Furniture and fixtures	47,379	46,916
Motor vehicle	-	97,418
	$ 137,158	$ 234,123
Less: accumulated depreciation	(61,026)	(41,815)
Fixed assets, net	$ 76,132	$ 192,308

Depreciation expenses charged to the consolidated statements of operations for the six months ended June 30, 2016 and 2015 were $24,075 and $15,817, respectively.

A motor vehicle has been sold to an affiliate of Singapore eDevelopment Limited (“SeD”) for a consideration of $93,678.

Note 4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accrued expenses and other current liabilities consisted of the following:

	June 30, 2016	December 31, 2015
Accrued payroll	$ 167,538	$ 196,401
Accrued professional fees	142,703	111,215
Due to related parties	16,016	-
Other	13,119	71,763
Total	$ 339,376	$ 379,379

Note 5. INCOME TAXES

The provision for income taxes for the three months ended June 30, 2016 and 2015, was as follows (assuming a 15% effective tax rate):

	Six months ended June 30,	
	2016	**2015**
Current Tax Provision:		
Federal-State	$ 7,037	$ -
Local	-	-
Total current tax provision	$ 7,037	$ -
Deferred Tax Provision:		
Loss carry-forwards	$ (63,166)	$ (66,160)
Change in valuation allowance	63,166	66,160
Total deferred tax provision	$ -	$ -

The Company had deferred income tax assets as of June 30, 2016 and 2015 as follows:

Loss carry-forwards	$ (617,448)	$ (166,973)
Less - valuation allowance	617,448	166,973
Total net deferred tax assets	$ -	$ -

The Company provided a valuation allowance equal to the deferred income tax assets for period ended June 30, 2016 because it is not presently known whether future taxable income will be sufficient to utilize the loss carry-forwards.

As of June 30, 2016, the Company had approximately $4,116,322 in tax loss carry-forwards that can be utilized in future periods to reduce taxable income, and expire by the year 2035. The Company did not identify any material uncertain tax positions. The Company did not recognize any interest or penalties for unrecognized tax benefits.

The federal income tax returns of the Company are subject to examination by the IRS, generally for three years after they are filed. The tax returns for the years ended December 31, 2015, 2014 and 2013 are still subject to examination by the taxing authorities.

Note 6. SHARE CAPITALIZATION

The Company is authorized to issue 500 million shares of common stock and 15 million shares of preferred stock. Both share types have a $0.0001 par value. As of June 30, 2016 and 2015, the Company had issued and outstanding, 5,909,687 of common stock, respectively and 13,800,000 shares of preferred stock, respectively.

Common Shares:

On July 13, 2015, SED acquired 777,687 shares of the Company common stock by converting outstanding loans made to the Company into common stock of the Company at a rate of $5.00 per share (rounded to the nearest full share). After such transactions SED owned 98.17% of the Company.

Preferred Shares:

Pursuant to the Purchase Agreement, dated October 15, 2014, the Company issued 1,000,000 shares of common stock to SED. Such amount represented 19% ownership in the Company. Pursuant to the Purchase Agreement, dated October 15, 2014, the Company issued 13,800,000 shares of a class of preferred stock called Perpetual Preferred Stock ("Preferred Stock") to SED. The Preferred Stock has no dividend or voting rights. The Preferred Stock is convertible to common stock of the Company dependent upon the number of commercial users of the Software. For each 1,000,000 commercial users of the Software (without duplication), SED shall have the right to convert 1,464,000 shares of Perpetual Preferred Stock into 7,320,000 shares of Common Stock, so that there must be a minimum of 9,426,230 commercial users in order for all of the shares of the Perpetual Preferred Stock to be converted into common stock of the Company (13,800,000 shares of Preferred Stock convertible into 69,000,000 shares of common stock).

Other than the conversion rights described above, the Preferred Stock has no voting, dividend, redemption or other rights.

Note 7 – COMMITMENTS AND CONTINGENCIES

On September 17, 2014, the Company entered into a lease agreement with Allbest Property Management Pte Ltd for 586 square feet of office space in Singapore. The lease commenced on September 22, 2014 and runs through June 30, 2017 with monthly payments of $2,325. The Company was required to put up a security deposit of $6,519.

On March 1, 2015, the Company entered into a lease agreement with Allbest Property Management Pte Ltd for additional 954 square feet of office space in Singapore. The lease commenced on March 1, 2015 and runs through June 30, 2017 with monthly payments of $3,750. The Company was required to put up a security deposit of $11,249.

As part of the restructuring of the Company, SED has agreed to take-over the lease commitment for the office space in Singapore with effect from January 1, 2016. Under this arrangement the Company will recover the rent expense for the three months ended June 30, 2016 from SED. The lease agreement with Allbest Property Management Pte Ltd was novated to SED with effect from April 1, 2016. For the six months ended June 30, 2016, the Company recorded rent expense of $0 for the Singapore offices.

On September 1, 2014 the Company entered into a lease agreement for 3,470 square feet of office space in Guangzhou, China. The lease commenced on November 1, 2014 and ran through August 2015. On August 31, 2015, the lease was renewed for another year and will expire on August 31, 2016 with monthly payments of $4,611. The Company was required to put up a security deposit of $3,832. On May 9, 2016, the Company entered into a lease agreement for 1,231 square feet of office space in Guangzhou, China. The lease commenced on May 9, 2016 and runs through May 8, 2018 with monthly payments of $2,325. The Company was required to put up a security deposit of $4,649. For the six months ended June 30, 2016 and 2015, the Company recorded rent expense of $21,795 and $14,230 for Guangzhou offices, respectively.

On April 10, 2015 the Company entered into a lease agreement for 347 square feet of office space in Kowloon, Hong Kong. These lease commenced on April 20, 2015 and runs through April 19, 2017 with monthly payments of $2,581. The Company was required to put up a security deposit of $5,162. For the six months ended June 30, 2016, the Company recorded rent expense of $16,266 for this office.

The following is a schedule by years of future minimum lease payments:

2016	$ 72,781
2017	45,827
Total	$ 118,608

Note 8. RELATED PARTY BALANCES AND TRANSACTIONS

The Company's Chief Executive Officer (CEO) and Director is the Chief Executive Officer of SED. SED is the majority shareholder of the Company. The Company's other two directors, one being the Chief Technology Officer who has entered into an employment arrangement with the Company's wholly owned subsidiary, HotApp International Limited. As of the date of this report, the Company has not entered into any employment arrangement with any director or officer.

As described in Note 7, SED has agreed to take-over the lease commitment for the office space in Singapore with effect from January 1, 2016. Under this arrangement the Company will recover the rent expense and related utilities expenses for the six months ended June 30, 2016 from SED. The lease agreement with Allbest Property Management Pte Ltd was novated to SED with effect from April 1, 2016.

For the six months ended June 30, 2016, the Company recovered $19,970 of rental and utilities expenses from SED.

Note 9. SUBSEQUENT EVENT

The Company has evaluated subsequent events through the date that the financials were issued.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

FORWARD-LOOKING STATEMENTS

Certain matters discussed herein are forward-looking statements. Such forward-looking statements contained in this Form 10-Q involve risks and uncertainties, including statements as to:

1. our future operating results;
2. our business prospects;
3. any contractual arrangements and relationships with third parties;
4. the dependence of our future success on the general economy;
5. any possible financings; and
6. the adequacy of our cash resources and working capital.

These forward-looking statements can generally be identified as such because the context of the statement will include words such as we "believe," "anticipate," "expect," "estimate" or words of similar meaning. Similarly, statements that describe our future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which are described in close proximity to such statements and which could cause actual results to differ materially from those anticipated as of the date of filing of this Form 10-Q. Shareholders, potential investors and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included herein are only made as of the date of filing of this Form 10-Q, and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

This discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those anticipated in these forward-looking statements.

Background

Hotapp International Inc, formerly Fragmented Industry Exchange Inc, (the "Company" or "Group") was incorporated in the State of Delaware on March 7, 2012 and established a fiscal year end of December 31. The Company's initial business plan was to be a financial acquisition intermediary which would serve buyers and sellers for companies that are in highly fragmented industries. The Company determined it was in the best interest of the shareholders to expand its business plan. On October 15, 2014, through a sale and purchase agreement (the "Purchase Agreement") the Company acquired all the issued and outstanding stock of HotApps International Pte Ltd (the "HIP") from Singapore eDevelopment Limited ("SeD"). HIP owned certain intellectual property relating to instant messaging for portable devices (the "HotApp"). HotApp is a cross-platform mobile application that incorporates instant messaging and ecommerce. It provides a messaging and calling services for HotApp users (text, photo, audio). HotApp can be used on any mobile platform (i.e. IOS Online or Android).

Pursuant to the Purchase Agreement, the Company issued SED 1,000,000 shares of common stock and 13,800,000 shares of newly created convertible preferred stock. See Note 8 for further description.

As of June 30, 2016, details of the Company's subsidiaries are as follows:

Subsidiaries	Date of Incorporation	Place of Incorporation	Percentage of Ownership
1st Tier Subsidiary:			
HotApps International Pte Ltd ("HIP")	May 23, 2014	Republic of Singapore	100% by Company
2nd Tier Subsidiaries:			
HotApps Call Pte Ltd	September 15, 2014	Republic of Singapore	100% owned by HIP
HotApps Information Technology Co Ltd	November 10, 2014	People's Republic of China	100% owned by HIP
HotApp International Limited*	July 8, 2014	Hong Kong (Special Administrative Region)	100% owned by HIP

* On March 25, 2015, HotApps International Pte Ltd acquired 100% of issued share capital in HotApp International Limited.

The Group has relied significantly on SeD as its principal sources of funding during the year. The Board has, in the meantime, reviewed and approved the restructuring of HotApp which has since reduced personnel to 10 currently from 40 previously. As part of

the revamp, HotApp will integrate business-to-business ("B2B") functions on its platform, transforming it from a business-to-consumer ("B2C") to an enterprise B2B product focusing on three industries: (i) network marketing businesses; (ii) enterprise messaging and collaboration solution; and (iii) hospitality application platform. This strategic shift is intended to create commercial value with a sharper focus.

Our Business

Our software application ("HotApp") is a community communications ecosystem (the "Platform"), connecting users who wish to seek out both local and global communities ("Users" or "Communities") and equipping them with necessary tools to communicate effectively across borders. HotApp will monetize the relationship between brands, Online-2-Offline ("O2O") operators and service providers (collectively, "Enterprises") and the HotApp Communities, and in the process mediate something of value to both parties. By targeting communities beyond demographics (ie. topical interest, common activities) Enterprises will be able to create targeted marketing campaigns with the expectation of higher conversion rates. The respective features of HotApp like HotNearby and HotChat and HotRoom enable peer to peer buying decision influence more effectively compared to generic social media. HotApp business partners actually have reason to believe they can market their product or service as a solution to the customer and their marketing network.

With our platform users can discover and build their own communities and create valuable content. Our platform tools empower these communities to share their thoughts and words across multiple channels. As these communities grow, they provide the critical mass that attracts enterprises. Enterprises in turn enhance user experience with premium contents, all of which are facilitated by the transactions of every stakeholder via e-commerce.

Trends in the Market and Our Opportunity

Mobile phone messaging apps will be used by more than 1.4 billion consumers in 2015, up 31.6% on the previous year according to eMarketer's forecast for these services.

Worldwide, that means 75% of smartphone users will use an over-the-top (OTT) mobile messaging app at least once a month in 2015.

The growth in popularity of messaging apps is projected to continue, and eMarketer predicts that by 2018, the number of chat app users worldwide will reach 2 billion and represent 80% of smartphone users.

Based upon the above trends, we believe significant opportunities exist for:

- Enterprise deploying messaging platform to effective engage different stakeholders
- Continuing growth in demand for OTT Services encapsulated within a single mobile app with a clear intent and objectives fulfilling the communication need for specific communities and industries.
- Enterprises to increase usage of OTT Services, such as adoption of Enterprise messaging Apps alongside with using of Email, video and audio conferencing, collaboration through cloud services, as a new medium for different stakeholder engagement including customers, to promote and market their products and services. HotApp's approach in white labelling for the enterprises will augment and fill this demand in the market.
- O2O operations has been identified as an integral aspect of HotApp's e-commerce and monetization plans. As such HotApp will continue to develop and explore partnerships to exploit such O2O operations.

Our Plan of Operations and Growth Strategy

We believe that we have significant opportunities to further enhance the value we deliver to our Users. We intend to pursue the following growth strategy:

- Position HotApp as an open platform to be ready for integration with third party technology partnerships such as Payment Services, Loyalty Programs, e-commerce;
- Engage Mobile App Integration Opportunities for Enterprises globally through "Powered by HotApp" initiatives, enabling Offline businesses to go On Line (O2O) with HotApp technology support

- Identify Strategic Partnership Opportunities globally through "Powered by HotApp" initiatives, enabling Offline businesses to go On Line (O2O) with HotApp technology support

- Establish community and business partnerships (collectively, "HotApp Partnerships") to expand our user base and engagement.

Results of Operations

Summary of Key Results

For the unaudited six month period ending June 30, 2016 and 2015

Research and Development Expense

Research and development expenses consists primarily of salary and benefits. Expenditures incurred during the research phase are expensed as incurred. We expect our research and development expenses to maintain with moderate changes in line with business activities. Total research and development for the quarters ended June 30, 2016 and 2015 were $65,440 and $285,527, respectively. The decrease was due to the reduction of development staff which is in line with the streamlining and restructuring of Company.

Sales and Marketing Expense

Sales and marketing expenses consist primarily of third party professional service providers. We expect our sales and marketing expenses to maintain with moderate changes in line with business activities. Total sales and marketing expenses for the quarters ended June 30, 2016 and 2015 were ($59) and $119,636, respectively. The negative ($59) was due to a reversal of $65,252 provision for HotApp Credit Points because the program was eliminated.

General and Administrative

General and administrative expenses consist primarily of salary and benefits, professional fees and rental expense. We expect our general and administrative expenses to maintain with moderate changes in line with business activities. Total general and administrative expenses for the quarters ended June 30, 2016 and 2015 were $124,578, and $233,771, respectively.

Other Expense (Income)

In the quarters ended June 30, 2016 and 2015, we have incurred $111,750 and $424 in foreign exchange gain and $1 and $0 in interest income.

For the unaudited six month period ending June 30, 2016 and 2015

Research and Development Expense

Research and development expenses consists primarily of salary and benefits. Expenditures incurred during the research phase are expensed as incurred. We expect our research and development expenses to maintain with moderate changes in line with business activities. Total research and development for the six month ended June 30, 2016 and 2015 were $203,887 and $554,216, respectively. The decrease was due to the reduction of development staff which is in line with the streamlining and restructuring of Company.

Sales and Marketing Expense

Sales and marketing expenses consist primarily of third party professional service providers. We expect our sales and marketing expenses to maintain with moderate changes in line with business activities. Total sales and marketing expenses for the six months ended June 30, 2016 and 2015 were ($64,635) and $176,965, respectively. The negative ($64,635) was due to a reversal of $65,252 provision for HotApp Credit Points because the program was eliminated.

General and Administrative

General and administrative expenses consist primarily of salary and benefits, professional fees and rental expense. We expect our general and administrative expenses to maintain with moderate changes in line with business activities. Total general and administrative expenses for the six months ended June 30, 2016 and 2015 were $370,283, and $367,073, respectively.

Other Expense (Income)

In the six months ended June 30, 2016 and 2015, we have incurred $112,504 and $426 in foreign exchange gain and $1 and $0 in interest income.

Liquidity and Capital Resources

At June 30, 2016, we had cash of $62,952 and working capital deficit of $261,837. Cash had decreased during the six months ended June 30, 2016 primarily due to operating losses incurred during the first half of the year.

We had a total stockholders' deficit of $179,371 and an accumulated deficit of $4,116,322 as of June 30, 2016 compared with a total stockholders' equity of $363,092 and an accumulated deficit of $3,688,180 as of December 31, 2015. This difference is primarily due to the net loss incurred during the first half of the year.

For the six months ended June 30, 2016, we recorded a net loss of $428,142. We made a positive adjustment of $24,075 due to depreciation and a negative adjustment of $112,504 due to foreign currency transaction gain. We had a positive change of $27,071 due to prepaid expenses and a positive change of $7,036 due to accrued taxes payable. We had a negative change of $40,003 due to accounts payable and accrued expenses. As a result, we had net cash used in operating activities of $522,467 for the six months ended June 30, 2016.

For the six months ended June 30, 2015, we recorded a net loss of $1,113,645. We made a positive adjustment of $15,817 due to depreciation. We had a negative change of $97,098 due to accounts payable and accrued expenses and $13,943 due to security deposits and other assets. We had a negative change of $3,648 due to prepaid expenses and $3,564 due to accrued taxes payable. As a result, we had net cash used in operating activities of $1,216,081 for the six months ended June 30, 2015.

For the six months ended June 30, 2016, we received $93,678 on the disposal of fixed assets, resulting in net cash provided by investing activities of $92,100 for the period.

For the six months ended June 30, 2015, we spent $38,803 on the acquisition of fixed assets, resulting in net cash used in investing activities of $38,803 for the period.

For the six months ended June 30, 2016, we did not pursue any financing activities.

For the six months ended June 30, 2015, we repaid shareholder loans of $437,610, resulting in net cash used in financing activities of $437,610 for the period.

As of June 30, 2016, we have fixed operating office lease agreements for both Guangzhou's office amounting to US$9,222 from 2015 to 2016, Singapore's offices minimum lease commitments of US$72,896 from 2015 to 2017, and Hong Kong's office amounting to US$25,298 from 2015 to 2017.

We will need to raise additional capital through equity or debt financings. However, we cannot be certain that such capital (from SED or third party) will be available to us or whether such capital will be available on a term that is acceptable to us. Any such financing likely would be dilutive to existing shareholders and could result in significant financial and operating covenants that would negatively impact our business. If we are unable to raise sufficient additional capital on acceptable terms, we will have insufficient funds to operate our business and pursue our business plan.

Consistent with Section 144 of Delaware General Corporation Law, it is our current policy that all transactions between us and our officers, directors and their affiliates will be entered into only if such transactions are approved by a majority of the disinterested directors, are approved by vote of the stockholders, or are fair to us as corporation as of the time it is authorized, approved or ratified by the board. We will conduct an appropriate review of all related party transactions on an ongoing basis.

Critical Accounting Policies

Our discussion and analysis of the financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. Certain of these critical accounting policies affect working capital account balances, including the policies for revenue recognition, allowance for doubtful accounts, inventory reserves and income taxes. These policies require that we make estimates in the preparation of our financial statements as of a given date.

Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

Revenue recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. The Group currently has no revenue but plans to derive its revenue from membership subscription services, offering the platform for mobile games developed by third parties and other services, including the use of the paid emoticons and mobile marketing services.

Research and development expenses

Research and development expenses primarily consist of (i) salaries and benefits for research and development personnel, and (ii) office rental, general expenses and depreciation expenses associated with the research and development activities. The Company's research and development activities primarily consist of the research and development of new features for its mobile platform and its self-developed mobile games. Expenditures incurred during the research phase are expensed as incurred.

Income taxes

Current income taxes are provided for in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized when temporary differences exist between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Net operating loss carry forwards and credits are applied using enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that a portion of or all of the deferred tax assets will not be realized. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics.

Uncertainties exist with respect to the application of the New EIT Law to our operations, specifically with respect to our tax residency. The New EIT Law specifies that legal entities organized outside of the PRC will be considered residents for PRC income tax purposes if their "de facto management bodies" as "establishments that carry on substantial and overall management and control over the operations, personnel, accounting, properties, etc. of the Company." Because of the uncertainties resulted from limited PRC guidance on the issue, it is uncertain whether our legal entities outside the PRC constitute residents under the New EIT Law. If one or more of our legal entities organized outside the PRC were characterized as PRC residents, the impact would adversely affect our results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to a "smaller reporting company" as defined in Item 10(f)(1) of SEC Regulation S-K

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company.

(a) Evaluation of Disclosure Controls and Procedures

Based on the evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's ("SECs") rules and forms and to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in the Company's Internal Controls over Financial Reporting

Other than described above, there have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any legal proceedings. Management is not aware of any legal proceedings proposed to be initiated against us. However, from time to time, we may become subject to claims and litigation generally associated with any business venture operating in the ordinary course.

ITEM 1A RISK FACTORS

Not applicable to a "smaller reporting company" as defined in Item 10(f)(1) of SEC Regulation S-K

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are incorporated into this Form 10-Q Quarterly Report:

Exhibit Number	Description
31.1*	Rule 13a-14(a) Certification of the Chief Executive and Financial Officer
32.1*	Section 1350 Certification of Chief Executive and Financial Officer

* Filed along with this document

SIGNATURES

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

HOTAPP INTERNATIONAL INC

Date: August 22, 2016

By: _____
Chan Heng Fai
Chief Executive Officer

Date: August 22, 2016

By: _____
Lui Wai Leung, Alan
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

Signature	Title	Date
Chan Heng Fai	Chief Executive Officer and Director	August 22, 2016
Lui Wai Leung, Alan	Chief Financial Officer	August 22, 2016