**U.S. SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended September 30, 2024

OR

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

**Commission file number: 333-232839**

BIOESSENCE®

**BIO ESSENCE CORP.**
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

**California**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

**94-3349551**
(IRS EMPLOYEE IDENTIFICATION NO.)

**2955 Main Street, Ste 300 Irvine CA 92614**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

**888-816-1494**
(ISSUER TELEPHONE NUMBER)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Yes ☒ No ☐

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☒ |
| | | Emerging Growth company | ☐ |

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

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

| Title of Each Class | Trading Symbol | Name of Exchange on Which Registered |
|---|---|---|
| **N/A** | N/A | N/A |

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

As of the latest practicable date, the Company has 38,009,000 shares of its common stock issued and outstanding.

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## PART I - FINANCIAL INFORMATION

**Item 1. Financial Statement**

**BIO ESSENCE CORPORATION**
**BALANCE SHEETS**

| | AS OF SEPTEMBER 30, 2024 (UNAUDITED) | AS OF DECEMBER 31, 2023 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and equivalents | $ 29,818 | $ - |
| Accounts receivable | 65,470 | - |
| Receivable due from disposal of discontinued operations | 400,000 | 300,000 |
| Prepayment to vendors | 21,000 | - |
| Other receivables | 197,294 | - |
| Deposit | 2,000 | - |
| Total current assets | 715,582 | 300,000 |
| NONCURRENT ASSETS | | |
| Security deposit | - | 52,545 |
| Right-of-use assets, net | - | 1,427,918 |
| Property and equipment, net | - | 3,688 |
| Intangible assets, net | 391 | 567 |
| Total non-current assets | 391 | 1,484,718 |
| Assets classified as held for sale | - | 973,862 |
| **TOTAL ASSETS** | **$ 715,973** | **$ 2,758,580** |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | |
| CURRENT LIABILITIES | | |
| Bank overdraft | $ - | $ 9,436 |
| Accounts payable | 32,110 | 12,453 |
| Customer deposit | 146,000 | - |
| Accrued liabilities and other payables | 336,604 | 137,700 |
| Accrued interest on government loans | 2,324 | 2,377 |
| Operating lease liabilities | 911,209 | 495,217 |
| Government loans payable - current portion | 1,344 | 4,596 |
| Loan from shareholders | 1,637,377 | 1,788,677 |
| Total current liabilities | 3,066,968 | 2,450,456 |
| NONCURRENT LIABILITIES | | |
| Operating lease liabilities | 535,082 | 938,409 |
| Government loans payable | 55,450 | 53,120 |
| Total non-current liabilities | 590,532 | 991,529 |
| Liabilities classified as held for sale | - | 976,889 |
| **TOTAL LIABILITIES** | **3,657,500** | **4,418,874** |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' DEFICIT | | |
| Preferred stock $0.0001 par value; authorized shares 10,000,000, no shares issued and outstanding as of September 30, 2024 and December 31, 2023 | - | - |

| | | |
|---|---|---|
| Common stock $0.0001 par value; authorized shares 100,000,000; issued and outstanding shares 38,009,000 as of September 30, 2024 and December 31, 2023 | 3,801 | 3,801 |
| Additional paid in capital | 7,476,379 | 7,476,379 |
| Accumulated deficit | (10,421,707) | (9,140,474) |
| **TOTAL STOCKHOLDERS' DEFICIT** | (2,941,527) | (1,660,294) |
| **TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT** | **$ 715,973** | **$ 2,758,580** |

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

**BIO ESSENCE CORPORATION STATEMENTS OF OPERATIONS**
**(UNAUDITED)**

| | NINE MONTHS ENDED SEPTEMBER 30, | | THREE MONTHS ENDED SEPTEMBER 30, | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| Revenues | $ 176,385 | $ - | $ 134,690 | $ - |
| Cost of revenues | 66,206 | - | 53,698 | - |
| Gross profit | 110,179 | - | 80,992 | - |
| Operating expenses | | | | |
| Selling | - | - | - | - |
| General and administrative | 573,469 | 150,114 | 227,440 | 82,644 |
| Total operating expenses | 573,469 | 150,114 | 227,440 | 82,644 |
| Loss from operations | (463,290) | (150,114) | (146,448) | (82,644) |
| Other income (expenses) | | | | |
| Interest expense | (1,617) | (1,652) | (536) | (548) |
| Other income | 33,086 | 4,868 | - | 1,200 |
| Other expenses | (1,105,537) | (73,058) | (1,052,509) | (23,058) |
| Other expenses, net | (1,074,068) | (69,842) | (1,053,045) | (22,406) |
| Loss before income tax | (1,537,358) | (219,956) | (1,199,493) | (105,050) |
| Income tax expense | 800 | 1,600 | - | - |
| Net loss from continuing operations | (1,538,158) | (221,556) | (1,199,493) | (105,050) |
| Loss from discontinued operations | (120,827) | (556,636) | - | (209,792) |
| Gain from disposal of discontinued operations | 377,752 | - | - | - |
| **Net loss** | **$ (1,281,233)** | **$ (778,192)** | **(1,199,493)** | **$ (314,842)** |
| Basic weighted average shares outstanding | 38,009,000 | 35,261,747 | 38,009,000 | 38,009,000 |
| Basic and diluted net loss per share | **$ (0.03)** | **$ (0.02)** | **$ (0.03)** | **$ (0.01)** |

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

**BIO ESSENCE CORPORATION STATEMENTS OF STOCKHOLDERS' DEFICIT**
**NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023**
**(UNAUDITED)**

| | COMMON STOCK - SHARES | COMMON STOCK - AMOUNT | ADDITIONAL PAID IN CAPITAL | ACCUMULATED DEFICIT | TOTAL |
|---|---|---|---|---|---|
| Balance at January 1, 2024 | 38,009,000 | $ 3,801 | $ 7,476,379 | $ (9,140,474) | $ (1,660,294) |
| Net income for the period | - | - | - | 133,938 | 133,938 |
| Balance at March 31, 2024 | 38,009,000 | 3,801 | 7,476,379 | (9,006,536) | (1,526,356) |
| Net loss for the period | - | - | - | (215,678) | (215,678) |
| Balance at June 30, 2024 | 38,009,000 | 3,801 | 7,476,379 | (9,222,214) | (1,742,034) |
| Net loss for the period | - | - | - | (1,199,493) | (1,199,493) |
| Balance at September 30, 2024 | 38,009,000 | $ 3,801 | $ 7,476,379 | $ (10,421,707) | $ (2,941,527) |

| | COMMON STOCK - SHARES | COMMON STOCK - AMOUNT | ADDITIONAL PAID IN CAPITAL | ACCUMULATED DEFICIT | TOTAL |
|---|---|---|---|---|---|
| Balance at January 1, 2023 | 33,009,000 | $ 3,301 | $ 4,926,879 | $ (8,168,595) | $ (3,238,415) |
| Net loss | - | - | - | (178,836) | (178,836) |
| Balance at March 31, 2023 | 33,009,000 | 3,301 | 4,926,879 | (8,347,431) | (3,417,251) |
| Net loss | - | - | - | (284,515) | (284,515) |
| Shares issued for shareholder's loan settlement | 5,000,000 | 500 | 2,549,500 | - | 2,550,000 |
| Balance at June 30, 2023 | 38,009,000 | 3,801 | 7,476,379 | (8,631,946) | (1,151,766) |
| Net loss | - | - | - | (314,842) | (314,842) |
| Balance at September 30, 2023 | 38,009,000 | $ 3,801 | $ 7,476,379 | $ (8,946,788) | $ (1,466,608) |

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

**BIO ESSENCE CORPORATION STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**

| | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|---|---|
| | **2024** | **2023** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (1,281,233) | $ (778,192) |
| Adjustments to reconcile loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization expenses | 853 | 7,235 |
| Loss on note conversion | - | 50,000 |
| Loss on disposal of fixed assets | 3,012 | 23,058 |
| (Income) loss from discontinued operations | (256,925) | 556,636 |
| Operating lease expense | 436,742 | 48,527 |
| Impairment loss of ROU asset | 1,050,940 | - |
| Changes in assets / liabilities: | | |
| Accounts receivable | (65,470) | - |
| Other receivables | (197,294) | - |
| Receivable from sale of BEP | 300,000 | - |
| Prepayment and deposits | 29,545 | (50,000) |
| Accounts payable | 19,655 | (7,100) |
| Customer deposit | 146,000 | - |
| Accrued liability and other payables | 197,297 | (4,800) |
| Accrued interest | (53) | 137 |
| Taxes payable | 1,607 | - |
| Payment of lease liability | (47,100) | (47,100) |
| Net cash provided by (used in) operating activities from continuing operations | 337,576 | (201,599) |
| Net cash used in operating activities from discontinued operations | (136,777) | (619,980) |
| Net cash provided by (used in) operating activities | 200,799 | (821,579) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Payment for leasehold improvement | - | (3,614) |
| Net cash used in investing activities from continue operations | - | (3,614) |
| Net cash used in investing activities from discontinued operations | - | - |
| Net cash used in investing activities | - | (3,614) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Bank overdraft | (9,436) | 2,050 |
| Loan from / repayment to shareholders | (151,300) | 865,491 |
| Payment of SBA loan | (922) | (788) |
| Net cash provided by (used in) financing activities from continuing operations | (161,658) | 866,753 |
| Net cash used in financing activities from discontinued operations | (9,323) | (47,733) |
| Net cash provided by (used in) financing activities | (170,981) | 819,020 |
| NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS | 29,818 | (6,173) |
| CASH & CASH EQUIVALENTS, BEGINNING OF PERIOD | - | 6,262 |
| CASH & CASH EQUIVALENTS, END OF PERIOD | $ 29,818 | $ 89 |

Supplemental Cash flow data:

| | | |
|---|---|---|
| Income tax paid | $ 800 | $ 3,200 |
| Interest paid | $ 5,771 | $ 16,958 |
| Supplemental disclosures of non-cash financing activities: | | |
| Conversion of loan from shareholders to common shares | $ - | $ 2,500,000 |
| Recognition of ROU asset and operating lease liability | $ - | $ 1,589,863 |

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

**BIO ESSENCE CORPORATION**
**NOTES TO FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2024 (UNAUDITED) AND DECEMBER 31, 2023**

## 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Bio Essence Corporation ("the Company" or "Bio Essence") was incorporated in 2000 in the state of California. Fusion Diet Systems ("FDS") was incorporated in 2010 in the state of Utah. Bio Essence and FDS have been under common control since 2016. Bio Essence and FDS are mainly engaged in manufacturing and distributing health supplement products. In January 2017, Bio Essence incorporated two subsidiaries in the state of California: Bio Essence Pharmaceutical Inc. ("BEP") and Bio Essence Herbal Essentials, Inc. ("BEH"), Bio Essence transferred its manufacturing operation to BEP and transferred its distributing operation to BEH. On March 1, 2017, the 100% shareholder of FDS transferred all of her ownership in FDS to Bio Essence. On December 7, 2021, the Company dissolved FDS. On December 12, 2023, the Company entered into an agreement with Newways Inc. to sell the 100% equity ownership of BEP for $300,000. On March 28, 2024, the Company entered into an agreement with Health Up Inc. to sell the 100% equity ownership of BEH for $400,000. Bio Essence incorporated a wholly owned subsidiary McBE Pharma Inc. ("McBE") in the state of California, McBE will be engaged in developing, manufacturing and sales of prescription medicine. McBE has not engaged in any operations since its inception. On April 15, 2024, the Company dissolved McBE.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation and Consolidation

The accompanying consolidated financial statements ("CFS") are prepared in conformity with U.S. Generally Accepted Accounting Principles ("US GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. The functional currency of Bio Essence is U.S. dollars ("$"). The accompanying financial statements are presented in U.S. dollars ("$"). The consolidated financial statements for the nine and three months ended September 30, 2024, include the financial statements of the Company and its subsidiaries, BEH (up to disposal date), and McBE (up to dissolution date). All significant inter-company transactions and balances were eliminated in consolidation.

### Reclassification

Certain prior period accounts have been reclassified in conformity with the current period's presentation. These reclassifications had no impact on the reported results of operations and cash flows.

**Going Concern**

The Company incurred net loss of $1,281,233 and $778,192 for the nine months ended September 30, 2024 and 2023, respectively. The Company incurred net losses of $1,199,493 and $314,842 for the three months ended September 30, 2024 and 2023, respectively. The Company also had an accumulated deficit of $10,421,707 as of September 30, 2024. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company disposed non-profitable subsidiaries BEH and BEP, and is actively seeking other business opportunities including expanding OEM business and looking for potential acquisition targets. Management also intends to raise funds by way of a private or public offering, or by obtaining loans from banks or others. While the Company believes in the viability of its strategy to generate sufficient revenue and in its ability to raise additional funds on reasonable terms and conditions, there can be no assurances to that effect. The ability of the Company to continue as a going concern is dependent upon the Company's ability to further implement its business plan and generate sufficient revenue and its ability to raise additional funds by way of a public or private offering. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Use of Estimates**

In preparing financial statements in conformity with US GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period.

Significant estimates, required by management, include the recoverability of long-lived assets, allowance for doubtful accounts, and the reserve for obsolete and slow-moving inventories. Actual results could differ from those estimates.

**Leases**

The Company follows ASC 842 and determines if an arrangement is a lease or contains a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, and operating lease liabilities (current and non-current) in the Company's consolidated balance sheets. Finance leases are included in property and equipment, and finance lease liabilities (current and non-current) in the Company's consolidated balance sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company generally uses the incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company elected the package of practical expedients permitted under the transition guidance to combine the lease and non-lease components as a single lease component for operating leases associated with the Company's office space lease, and to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the consolidated statements of income on a straight-line basis over the lease term.

ROU assets are reviewed for impairment when indicators of impairment are present. ROU assets from operating and finance leases are subject to the impairment guidance in ASC 360, Property, Plant, and Equipment, as ROU assets are long-lived nonfinancial assets. The Company recognized $1,050,940 impairment loss of ROU assets during the nine and three months ended September 30, 2024.

**Cash and Cash Equivalents**

For financial statement purposes, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Credit Losses**

On January1, 2023, the Company adopted Accounting Standards Update 2016-13 “Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,” which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The adoption of the credit loss accounting standard has no material impact on the Company’s consolidated financial statements as of January 1, 2023.

The Company’s account receivables and other receivables in the balance sheet are within the scope of ASC Topic 326. As the Company has limited customers and debtors, the Company uses the loss-rate method to evaluates the expected credit losses on an individual basis. When establishing the loss rate, the Company makes the assessment on various factors, including historical experience, credit-worthiness of customers and debtors, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from the customers and debtors. The Company also provides specific provisions for allowance when facts and circumstances indicate that the receivable is unlikely to be collected.

Expected credit losses are recorded as allowance for credit losses on the consolidated statements of operations. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. In the event the Company recovers amount that is previously reserved for, the Company will reduce the specific allowance for credit losses.

**Accounts Receivable, Net**

The Company’s policy is to maintain an allowance for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. As of September 30, 2024 and December 31, 2023, there was no bad debt allowance. As of December 31, 2023, the bad debt allowance from discontinued operation (BEH) was $2,252.

**Inventory**

Inventories are stated at the lower of cost or net realizable value with cost determined on a weighted-average basis. Management compares the cost of inventories with the net realizable value and an allowance is made for writing down their inventories to net realizable value, if lower.

**Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation, and impairment losses, if any. Major repairs and betterments that significantly extend original useful lives or improve productivity are capitalized and depreciated over the period benefited. Maintenance and repairs are expensed as incurred. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets as follows:

| | |
|---|---|
| Leasehold improvements | 7-10 years |
| Office furniture | 5 years |

**Impairment of Long-Lived Assets**

Long-lived assets, which include property and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of long-lived assets to be held and used is measured by comparing of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by it. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds its fair value ("FV"). FV is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable. Based on its review, the Company believes that, as of September 30, 2024 and December 31, 2023, there was no significant impairments of its long-lived assets.

**Income Taxes**

Income taxes are accounted for using an asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current period and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets also include the prior years' net operating losses carried forward. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

The Company follows ASC Topic 740, which prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740 also provides guidance on 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, accounting for income taxes in interim periods, and income tax disclosures.

Under the provisions of ASC Topic 740, when tax returns are filed, it is likely that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest associated with unrecognized tax benefits is classified as interest expense and penalties are classified in selling, general and administrative expenses in the statement of income.

At September 30, 2024 and December 31, 2023, the Company did not take any uncertain positions that would necessitate recording a tax related liability. The Company files a U.S. income tax return. With few exceptions, the Company's U.S. income tax return filed for the years ending on December 31, 2019 and thereafter are subject to examination by the relevant taxing authorities.

The Company accounts for income taxes in interim periods in accordance with FASB ASC 740-270, "Interim Reporting." The Company has determined an estimated annual effective tax rate. The rate will be revised, if necessary, as of the end of each successive interim period during the Company's fiscal year to its best current estimate. The estimated annual effective tax rate is applied to the year-to-date ordinary income (or loss) at the end of the interim period.

**Revenue Recognition**

The Company recognizes revenues following the five-step model prescribed under ASC 606: (i) identify contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenues when (or as) we satisfy the performance obligation.

Revenue is measured at the amount of consideration we expect to receive in exchange for the sale of our product, which occurs at a point in time, typically upon delivery to the customer. The Company expenses incremental costs of obtaining a contract as and when incurred if the expected amortization period of the asset that it would have recognized is one year or less or the amount is immaterial.

Revenues from sales of goods are measured at net of reserves established for applicable discounts and allowances that are offered within contracts with the Company's customers, and are recognized when the goods are delivered to the customers.

Product revenue reserves, which are classified as a reduction in product revenues, are generally characterized in the following categories: discounts, returns and rebates. These reserves are based on estimates of the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable as the amount is payable to the Company's customers.

Revenues from manufacture or OEM services are recognized when the manufacture process is completed pursuant to the customers' requirement and the manufactured goods were delivered to the customers.

The Company's return policy allows for the return of damaged or defective products and shipment errors. A notice of damage or wrong items should make within five days from receiving the goods, and actual return of the products must be completed within 30 days from the date of receiving the goods. Delayed notification for damaged or wrong products will not be accepted for return or exchange. Custom formulas and capsules are not returnable. The amount for return of products was immaterial for the nine and three months ended September 30, 2024 and 2023.

**Cost of Revenue**

Cost of goods sold ("COGS") consists primarily of finished goods purchased from other manufacturers, material costs, labor costs and related overhead that are directly attributable to the production of the products. Write-down of inventory to lower of cost or net realizable value is also recorded in COGS.

Cost of manufacture service/OEM consists primarily of direct labor costs and related overhead that are directly attributable to the manufacture process.

**Shipping and Handling Costs**

Shipping and handling costs related to delivery of finished goods are included in selling expenses. During the nine months ended September 30, 2024 and 2023, shipping and handling costs from continuing operations were $1,286 and $nil, respectively. During the three months ended September 30, 2024 and 2023, shipping and handling costs from continuing operations were $1,286 and $nil, respectively.

During the nine months ended September 30, 2024 and 2023, shipping and handling costs from discontinued operations were $8,009 and $32,596, respectively. During the three months ended September 30, 2024 and 2023, shipping and handling costs from discontinued operations were $nil and $12,638, respectively.

**Advertising**

Advertising expenses consist primarily of costs of promotion and marketing for the Company's image and products, and costs of direct advertising, and are included in selling expenses. The Company expenses all advertising costs as incurred. During the nine and three months ended September 30, 2024 and 2023, advertising expenses from continuing operations were $nil and $nil, and $nil and $nil, respectively.

During the nine months ended September 30, 2024 and 2023, advertising expenses from discontinued operations were $1,228 and $63,912, respectively. During the three months ended September 30, 2024 and 2023, advertising expenses from discontinued operations were $nil and $10,778, respectively.

**Fair Value ("FV") of Financial Instruments**

Certain of the Company's financial instruments, including cash and equivalents, accrued liabilities and accounts payable, carrying amounts approximate their FV due to their short maturities. FASB ASC Topic 825, "Financial Instruments," requires disclosure of the FV of financial instruments held by the Company. The carrying amounts reported in the balance sheets for current liabilities each qualify as financial instruments and are a reasonable estimate of their FV because of the short period of time between the origination of such instruments and their expected realization and the current market rate of interest.

**Fair Value Measurements and Disclosures**

ASC Topic 820, "Fair Value Measurements and Disclosures," defines FV, and establishes a three-level valuation hierarchy for disclosures of FV measurement that enhances disclosure requirements for FV measures. The three levels are defined as follow:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the FV measurement.

As of September 30, 2024 and December 31, 2023, the Company did not identify any assets and liabilities that are required to be presented on the balance sheet at FV. The carrying value of cash, accounts receivable, prepaid expenses, advances to suppliers, accounts payable, taxes payable, other payables and accrued liabilities approximate estimated fair values because of their short maturities.

**Share-based Compensation**

The Company accounts for share-based compensation awards in accordance with ASC 718, "Compensation – Stock Compensation". The cost of services received from employees and non-employees in exchange for awards of equity instruments is recognized in the consolidated statement of operations based on the estimated fair value of those awards on the grant date and amortized on a straight-line basis over the requisite service period or vesting period. The Company records forfeitures as they occur.

**Earnings (Loss) per Share (EPS)**

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is computed similar to basic net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if all the potential common shares pertaining to warrants, stock options, and similar instruments had been issued and if the additional common shares were dilutive. Diluted EPS are based on the assumption that all dilutive convertible shares and stock options and warrants were converted or exercised. Dilution is computed by applying the treasury stock method for the outstanding unvested restricted stock, options and warrants, and the if-converted method for the outstanding convertible instruments. Under the treasury stock method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later) and as if funds obtained thereby were used to purchase common stock at the average market price during the period. Under the if-converted method, outstanding convertible instruments are assumed to be converted into common stock at the beginning of the period (or at the time of issuance, if later). There were no potentially dilutive securities outstanding (options and warrants) for the nine and three months ended September 30, 2024 and 2023.

**Concentration of Credit Risk**

Financial instruments that potentially subject the Company to credit risk consist primarily of accounts and other receivables. The Company does not require collateral or other security to support these receivables. The Company conducts periodic reviews of the financial condition and payment practices of its customers to minimize collection risk on accounts receivable.

For the nine months ended September 30, 2024, the Company had three major customers accounted for 22.65%, 17.91%, and 10.92%, respectively, of the Company's total sales. For the nine months ended September 30, 2023, one major customer accounted for 22% of the Company's total sales.

For the three months ended September 30, 2024, three major customers accounted for 30%, 16% and 14%, respectively, of the Company's total sales. For the three months ended September 30, 2023, no customers accounted for more than 10% of the Company's total sales.

For the nine and three months ended September 30, 2024, the Company had one major vendor accounted for 100% of the Company's total purchases.

The Company had four major vendors accounted for 29%, 15%, 12% and 10%, respectively, of total purchases during the nine months ended September 30, 2023.

The Company had four major vendors accounted for 23%, 15%, 14%, 14%, respectively, of total purchases during the three months ended September 30, 2023.

**Segment Reporting**

ASC Topic 280, "Segment Reporting," requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's chief operating decision maker organizes segments within the Company for making operating decisions assessing performance and allocating resources. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

Management determined the Company's operations constitute a single reportable segment in accordance with ASC 280. The Company operates exclusively in one business and industry segment: manufacture and sale of health supplement products.

**New Accounting Pronouncements**

In November 2023, the FASB issued ASU 2023-07, the amendments in the ASU are intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss. In addition, the amendments enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment, and contain other disclosure requirements. The purpose of the amendments is to enable "investors to better understand an entity's overall performance" and assess "potential future cash flows." The amendments in ASU 2023-07 are effective for all public entities for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company's management does not believe the adoption of ASU 2023-09 will have a material impact on its financial statements and disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures (ASU 2023-09), which requires disclosure of incremental income tax information within the rate reconciliation and expanded disclosures of income taxes paid, among other disclosure requirements. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company's management does not believe the adoption of ASU 2023-09 will have a material impact on its financial statements and disclosures.

The Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the Company's consolidated financial position, statements of comprehensive income and cash flows.

**3. DISCONTINUED OPERATIONS**

*Disposal of BEP*

On December 12, 2023, the Company entered into a Stock Purchase Agreement ("SPA") with Newways, Inc., a California corporation ("Newways") whereby the Company agreed to sell to Newways its wholly owned subsidiary, BEP, in exchange for cash consideration of $300,000. Newways is not a related party of the Company. The transaction was closed on December 31, 2023. The Company recorded $67,451 gain on disposal of the subsidiary, which was the difference between the selling price of $300,000 and the carrying value of the net assets of $232,549 of the disposal entity. The following table summarizes the carrying value of the assets and liabilities of BEP at December 31, 2023.

| | AS OF DECEMBER 31, 2023 |
|---|---|
| **ASSETS** | |
| CURRENT ASSETS | |
| Accounts receivable, net | $ 143,164 |
| Other receivables | 710,084 |
| Prepaid expenses | 7,288 |
| Inventory, net | 5,266 |
| Property and equipment, net | 208,241 |
| Intangible assets, net | - |
| **TOTAL ASSETS** | **$ 1,074,043** |
| | |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | |
| CURRENT LIABILITIES | |
| Bank overdraft | $ 7,806 |
| Accounts payable | 27,884 |
| Taxes payable | 9,993 |
| Accrued liabilities and other payables | 727,657 |
| Accrued interest on government loans | 592 |
| Finance lease liabilities | 11,003 |
| Loan payables | 10,340 |
| Finance lease liabilities | 24,643 |
| Loan payables | 15,221 |
| Government loans payable | 6,355 |
| **TOTAL LIABILITIES** | **$ 841,494** |
| **Net Assets** | **$ 232,549** |
| **Consideration** | **300,000** |
| **Gain on disposal** | **$ 67,451** |

*Disposal of BEH*

On March 28, 2024, the Company entered into a Stock Purchase Agreement ("SPA") with Health Up Inc., a California corporation ("HUT"), an unrelated party whereby the Company agreed to sell to HUT its wholly owned subsidiary, BEH, in exchange for cash consideration of $400,000. The transaction was closed on April 1, 2024. The Company recorded $377,752 gain on disposal of the subsidiary, which was the difference between the selling price of $400,000 and the carrying value of the net assets of $22,248 of the disposal entity. The following table summarizes the carrying value of the assets and liabilities of BEH at March 31, 2024.

| | As of March 31, 2024 |
|---|---|
| **ASSETS** | |
| CURRENT ASSETS | |
| Cash and equivalents | $ 114 |
| Accounts receivable, net | 43,164 |
| Other receivables | 877,749 |
| Prepaid expenses | 52,419 |
| Security deposit | 5,364 |
| Inventory, net | 184,590 |
| Property and equipment, net | 92,274 |
| ROU, Net | 112,213 |
| **TOTAL ASSETS** | $ 1,367,887 |
| | |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | |
| CURRENT LIABILITIES | |
| Bank overdraft | $ 2,532 |
| Accounts payable | 183,170 |
| Taxes payable | 14,515 |
| Accrued liabilities and other payables | 841,390 |
| Accrued interest on government loans | 13,603 |
| Finance lease liabilities | 2,694 |
| Operating lease liability | 50,331 |
| Loan from officer | 29,000 |
| Finance lease liabilities | 695 |
| Operating lease liability | 61,996 |
| Government loans payable | 145,714 |
| TOTAL LIABILITIES | $ 1,345,640 |
| Net Assets | $ 22,248 |
| Consideration | 400,000 |
| Gain on disposal | $ 377,752 |

The operations of BEP and BEH was accounted for as discontinued operations in the accompanying consolidated financial statements for all periods presented. The following table presents the components of discontinued operations reported in the consolidated statements of operations:

| | For the three months ended September 30, | |
|---|---|---|
| | 2024 | 2023 |
| Revenue, Net | $ - | $ 155,695 |
| Cost of Revenues | - | 130,924 |
| Gross Profit | - | 24,771 |
| Operating Expenses | - | 289,275 |
| Loss from Operations | - | (264,504) |
| Other Income (Expenses) | | |
| Interest expense | - | (3,394) |
| Other income (expenses) | - | 58,106 |
| Total Other Income, net | - | 54,712 |
| Loss Before Income Taxes | - | (209,792) |
| Income Tax Expense | - | - |
| Net Loss from Discontinued Operations | $ - | $ (209,792) |

| | For the nine months ended September 30, | |
|---|---|---|
| | 2024 | 2023 |
| Revenue, Net | $ 153,865 | $ 756,598 |
| Cost of Revenues | 76,592 | 455,630 |
| Gross Profit | 77,273 | 300,968 |
| Operating Expenses | 192,652 | 898,925 |
| Loss from Operations | (115,379) | (597,957) |
| Other Income (Expenses) | | |
| Interest expense | (4,154) | (16,098) |
| Other income (expenses) | (1,294) | 59,019 |
| Total Other Expenses | (5,448) | 42,921 |
| Loss Before Income Taxes | (120,827) | (555,036) |
| Income Tax Expense | - | 1,600 |
| Net Loss from Discontinued Operations | $ (120,827) | $ (556,636) |

**4. RECEIVABLE DUE FROM DISPOSAL OF DISCONTINUED OPERATIONS**

As of September 30, 2024 and December 31, 2023, receivable due from disposal of discontinued operations was $400,000 and $300,000, respectively. Receivable due from disposal of discontinued operations mainly consisted of receivables from disposal of subsidiaries BEH and BEP.

**5. OTHER RECEIVABLES**

As of September 30, 2024 and December 31, 2023, other receivable was $197,294 and $0, respectively. Other receivables mainly consisted of outstanding receivables from BEH.

As of December 31, 2023, other receivables from discontinued operation (BEH) was $877,749, respectively.

**6. INVENTORY**

Inventory from the Company's continuing operations was $nil and $nil at September 30, 2024 and December 31, 2023, respectively.

As of December 31, 2023, the total inventory from discontinued operation (BEH) was $143,259, respectively.

**7. DEPOSIT**

As of September 30, 2024, deposit mainly consisted of the office rent deposit of $2,000 (one-year operating lease effective on June 1, 2024).

The Company made a security deposit of $50,000 (non-current security deposit) for a lease of BEC that was effective on September 1, 2023. On February 29, 2024, the Management decided an early termination of this lease; as a result, the landlord didn't return the security deposit.

As of December 31, 2023, the security deposit from the company's discontinued operation (BEH) was for rent of the Company's office of $41,841, respectively.

**8. PROPERTY AND EQUIPMENT, NET**

Property and equipment from the company's continuing operations consisted of the following at September 30, 2024 and December 31, 2023:

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| | (unaudited) | |
| Leasehold improvements | $ - | $ 3,614 |
| Office furniture and equipment | 56,505 | 56,505 |
| Total | 56,505 | 60,119 |
| Less: accumulated depreciation | (56,505) | (56,431) |
| Net | $ - | $ 3,688 |

Depreciation expense for the nine months ended September 30, 2024 and 2023 from the Company's continuing operations were $677 and $7,059, respectively.

Depreciation expense for the three months ended September 30, 2024 and 2023 from the Company's continuing operations were $nil and $2,370, respectively.

As of December 31, 2023, the net total property and equipment from discontinued operation (BEH) was $94,454, respectively.

**9. INTANGIBLE ASSETS, NET**

Intangible assets from the company's continuing operations consisted of the following as of September 30, 2024 and December 31, 2023:

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| | (unaudited) | |
| Computer Software | $ 36,928 | $ 36,928 |
| Trademark | 2,350 | 2,350 |
| Total | 39,278 | 39,278 |
| Less: accumulated amortization | (38,887) | (38,711) |
| Net | $ 391 | $ 567 |

Amortization of intangible assets from the company's continuing operations were $176 and $176 for the nine months ended September 30, 2024 and 2023, respectively.

Amortization of intangible assets from the company's continuing operations were $59 and $59 for the three months ended September 30, 2024 and 2023, respectively.

Estimated amortization for the existing intangible assets with finite lives from the company's continuing operations for each of the next five years at September 30, 2024 is as follows: $236, $155, nil, nil and nil.

**10. ACCRUED LIABILITIES AND OTHER PAYABLES**

Accrued liabilities and other payables from the company's continuing operations consisted of the payables to BEP of $336,604 and $137,700, respectively, at September 30, 2024 and December 31, 2023, as a result of disposal of BEP and BEH.

As of December 31, 2023, the total accrued expenses and other payables from discontinued operation (BEH) was $833,911, respectively.

**11. GOVERNMENT LOANS PAYABLE**

In May and June 2020, BEH, BEP and FDS received total of $215,600 from the Economic Injury Disaster Loan ("EIDL loan") from the SBA after deducting $100 Uniform Commercial Code ("UCC") handling charge and filing fee for each company. This is a low-interest federal disaster loan for working capital to small businesses and non-profit organizations of any size suffering substantial economic injury as a result of the Coronavirus (COVID-19), to help the businesses to meet financial obligations and operating expenses that could have been met had the disaster not occurred. This loan has interest of 3.75% and is not forgivable. The maturity of the loan is 30 years, installment payments including principal and interest of $515 monthly will begin 12 months from the date of the promissory note. On March 4, 2022, The FDS transferred its EIDL loan to BEC due to the dissolution of FDS. The SBA extended the deferment period to allow small businesses and not-for-profits that received EIDL funds do not have to begin payments on the loan until 30 months after the date of the note. Accordingly, the company began to make installment payments in the fourth quarter 2022.

As of September 30, 2024, the future minimum EIDL loan payments from the company's continuing operations to be paid by year are as follows:

| Year Ending | Amount |
|---|---|
| September 30, 2025 | $ 1,344 |
| September 30, 2026 | 1,395 |
| September 30, 2027 | 1,448 |
| September 30, 2028 | 1,504 |
| September 30, 2029 | 1,561 |
| Thereafter | 49,542 |
| Total | $ 56,794 |

**12. RELATED PARTY TRANSACTIONS**

*Loans from Shareholder*

At September 30, 2024 and December 31, 2023, the Company held loans from one major shareholder (also the Company's senior officer) for $1,028,746 and $1,180,046, respectively. At September 30, 2024 and December 31, 2023, the Company held loan from another major shareholder for $608,631 for settling the litigation. There are no written loan agreements for these loans. These loans are unsecured, non-interest bearing and have no fixed terms of repayment, and therefore, deemed payable on demand. Cash flows from loans from shareholder are classified as cash flows from financing activities.

On May 31, 2023, the Board of Directors of Bio Essence Corp. (the "Company"), approved a debt-to-equity conversion. The Company and Ms. Yan (the Company's Chief Executive Officer also the Company's major shareholder) agreed to a debt conversion whereby Ms. Yan receives 5,000,000 shares of the Company's common stock in exchange for retirement of the $2,500,000 debt. The Board of Directors of the Company executed the Consent Resolution on June 2, 2023. On June 2, 2023, the closing price of the Company's common stocks trading on OTC Market was $0.51 per share. The Company incurred $50,000 loss from this conversion.

**13. INCOME TAXES**

The Company and its subsidiaries are subject to 21% federal corporate income tax in US.

At September 30, 2024 and December 31, 2023, the Company had net operating loss ("NOL") for income tax purposes; for federal income tax purposes, the NOL arising in tax years beginning after 2017 may only reduce 80% of a taxpayer's taxable income, and may be carried forward indefinitely; for California income tax purposes, the entire NOL can be carried forward up to 20 years.

The Company has NOL carry-forwards for Federal and California income tax purposes of $2.33 million and $2.27 million at September 30, 2024 and December 31, 2023, respectively. No tax benefit was reported with respect to these NOL carry-forwards in the accompanying consolidated financial statements because the Company believes the realization of the Company's net deferred tax assets for the NOL for both federal and California State of approximately $0.65 million as of September 30, 2024, was not considered more likely than not and accordingly, the potential tax benefits of the net loss carry-forwards are fully offset by a full valuation allowance.

Components of the Company's deferred tax assets from the company's continuing operations as of September 30, 2024 and December 31, 2023 are as follows:

| | September 30, 2024 (unaudited) | December 31, 2023 |
|---|---|---|
| Net deferred tax assets (liability): | | |
| Depreciation and amortization expense | $ 1,914 | $ 477 |
| Expected income tax benefit from NOL carry-forwards | 650,728 | 634,425 |
| Less: valuation allowance | (652,642) | (634,902) |
| Deferred tax assets, net of valuation allowance | $ - | $ - |

*Income Tax Provision in the Statements of Operations*

A reconciliation of the consolidated federal statutory income tax rate and the effective income tax rate as a percentage of income before income taxes from the company's continuing operations for the nine months ended September 30, 2024 and 2023 is as follows:

| | 2024 (unaudited) | 2023 (unaudited) |
|---|---|---|
| Federal statutory income tax expense (benefit) rate | (21.00)% | (21.00)% |
| State statutory income tax (benefit) rate, net of effect of state income tax deductible to federal income tax | (6.98)% | (6.98)% |
| Permanent difference | (28.45)% | -% |
| Change in valuation allowance | 56.36% | 28.71% |
| Effective income tax rate | (0.07)% | 0.73% |

A reconciliation of the consolidated federal statutory income tax rate and the effective income tax rate as a percentage of income before income taxes from the company's continuing operations for the three months ended September 30, 2024 and 2023 is as follows:

| | 2024 (unaudited) | 2023 (unaudited) |
|---|---|---|
| Federal statutory income tax expense (benefit) rate | (21.00)% | (21.00)% |
| State statutory income tax (benefit) rate, net of effect of state income tax deductible to federal income tax | (6.98)% | (6.98)% |
| Permanent difference | (27.50)% | -% |
| Change in valuation allowance | 55.49% | 29.78% |
| Effective income tax rate | 0.00% | 0.00% |

The provision for income tax expense for the continuing operations for the nine months ended September 30, 2024 and 2023 consisted of the following:

| | 2024 (unaudited) | 2023 (unaudited) |
|---|---|---|
| Income tax expense – current | $ 800 | $ 1,600 |
| Income tax benefit – current | - | - |
| Total income tax expense | $ 800 | $ 1,600 |

The provision for income tax expense for the continuing operations for the three months ended September 30, 2024 and 2023 consisted of the following:

| | 2024 (unaudited) | 2023 (unaudited) |
|---|---|---|
| Income tax expense – current | $ - | $ - |
| Income tax benefit – current | - | - |
| Total income tax expense | $ - | $ - |

**14. LEASES**

**Operating Leases**

*Warehouse and office lease*

Effective October 1, 2018, the Company entered a 62.5 month lease for a facility including warehouse and office in the City of Irvine, California, with a security deposit of $41,841. The monthly rent is approximately $16,200 with a 3% increase each year. The lease provided an option to extend at lease maturity for another five-years, with six months prior written notice of lessee's intention to extend the lease. The Company's CEO is the guarantor of this lease. Lessor will have the right to proceed against guarantor following any breach or default by lessee without first proceeding against lessee and without previous notice to or demand upon either lessee or guarantor. At the commence of the lease, the Management intended to use the option to extend 3 more years in the lease term. Lately, the Management decided to let the lease expire without renew on September 30, 2023.

On May 18, 2023, the Company entered a 36 months lease for a facility including warehouse and office in the City of Irvine, California, with a security deposit of $50,000, effective on September 1, 2023. The monthly rent is approximately $47,100 with a 3% increase each year. On February 29, the Management moved out from the facilities and decided to seek early termination of this lease. The $50,000 security deposit was not returned to the Company and the negotiation of early termination is still ongoing as of the reporting date. As of September, 30, 2024, the Company recorded the full impairment of ROU asset of $1.05 million and kept $1.45 million lease liabilities associated with this lease in the Company's consolidated financial statements due to uncertainty of the negotiation with the landlord.

The components of lease costs for continuing operations, lease term and discount rate with respect of warehouse and office lease with an initial term of more than 12 months are as follows:

| | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|
| | (unaudited) | (unaudited) |
| Operating lease cost | $ 436,742 | $ 48,527 |
| Weighted Average Remaining Lease Term - Operating leases including options to renew | - | - |
| Weighted Average Discount Rate - Operating leases | 5% | 5% |

| | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 |
|---|---|---|
| | (unaudited) | (unaudited) |
| Operating lease cost | $ 145,581 | $ 48,527 |
| Weighted Average Remaining Lease Term - Operating leases including options to renew | - | - |
| Weighted Average Discount Rate - Operating leases | 5% | 5% |

**Finance lease (discontinued operations)**

Effective March 15, 2022, the company entered two 39-months lease for two copiers with same vendor for a monthly payment of $234 and $214, respectively. Effective June 24, 2022, the company entered two leases for two forklifts with a term of 60 months for each, and the monthly payment was $383 and $451, respectively. At the lease expiration date, the Company has the option to purchase the copier for $1 each. The leases were disposed as a result of disposal of BEP on December 31, 2023 and disposal of BEH on March 31, 2024.

The components of lease costs, lease term and discount rate with respect of the copier lease with an initial term of more than 12 months are as follows:

| | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|
| | (unaudited) | (unaudited) |
| Finance lease cost | | |
| Amortization | $ 653 | $ 9,687 |
| Interest on lease liabilities | 48 | 1,793 |
| Total finance lease cost | $ 701 | $ 11,480 |
| Weighted Average Remaining Lease Term - Finance leases | - | 3.29 |
| Weighted Average Discount Rate – Finance leases | 5% | 5% |

| | Three Months Ended September 30, 2024 (unaudited) | Three Months Ended September 30, 2023 (unaudited) |
|---|---|---|
| Finance lease cost | | |
| Amortization | $ - | $ 3,270 |
| Interest on lease liabilities | - | 543 |
| Total finance lease cost | $ - | $ 3,813 |
| Weighted Average Discount Rate – Finance leases | 5% | 5% |

**15. LOAN PAYABLES**

In June 2021, BEP, the discontinued entity entered a loan agreement of $14,549 for purchasing a videojet with interest rate of 14.11% and a term of three-years. In September 2021, BEP entered another loan agreement of $39,218 for purchasing a spectrophotometer workstation with interest rate of 10.26% and a term of five-years. The Company recorded interest expense of $3,524 and $4,899 during the years ended December 31, 2023 and 2022, respectively. The loan was disposed as a result of disposal of BEP on December 31, 2023.

**16. SUBSEQUENT EVENTS**

The Company follows the guidance in FASB ASC 855-10 for the disclosure of subsequent events. The Company evaluated subsequent events through the date the financial statements were issued and determined the Company did not have any material subsequent event.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

***Business Overview***

Bio Essence Corporation ("the Company" or "Bio Essence") was incorporated in 2000 in the state of California. Fusion Diet Systems ("FDS") was incorporated in 2010 in the state of Utah. Bio Essence and FDS have been owned under common control since 2016. Bio Essence and FDS are mainly engaged in manufacturing and distributing health supplement products. In January 2017, Bio Essence incorporated two subsidiaries in the state of California: BEP and BEH, Bio Essence transferred its manufacturing operation into BEP, and transferred its distributing operation into BEH. On March 1, 2017, the 100% shareholder of FDS transferred all her ownership in FDS into Bio Essence. On December 7, 2021, the Company dissolved FDS. On November 12, 2021, Bio Essence incorporated a wholly owned subsidiary McBE Pharma Inc. ("McBE") in the state of California, McBE will be engaged in research and development and manufacture of prescription medicine. As a result of the ownership restructure, BEP, BEH, and MCBE became wholly owned subsidiaries of Bio Essence, and Bio Essence serves as a holding corporation for these subsidiaries. McBE has not engaged in any operations since its inception. On December 12, 2023, the Company entered into an agreement with Newway Inc to sell the 100% equity ownership of BEP for $300,000. On March 28, 2024, the Company entered into an agreement with Health Up Inc to sell the 100% equity ownership of BEH for $400,000. On April 15, 2024, the Company dissolved McBE.

The primary focus of BEP is producing products for BEH, along with providing OEM services to other companies. BEH targets healthcare practitioners with herbal products in the form of granules, capsules, pills and tablets. It also offers special formulation service to practitioners. The Company intends to develop the subsidiary into an integrated healthcare platform that provides customers direct connections with integrative healthcare practitioners such as dietitians, nutraceutical practitioners, and other practitioners in this discipline worldwide.

***Related Party Transactions***

*Loans from Officer*

On September 30, 2024 and December 31, 2023, the Company had loans from one major shareholder (also the Company's senior officer) of $1,028,746 and $1,180,046, respectively. On September 30, 2024 and December 31, 2023, the Company had loan from another major shareholder for $608,631 for settling the litigation. There are no written loan agreements for these loans. These loans are unsecured, non-interest bearing and have no fixed terms of repayment, and therefore, deemed payable on demand.

On May 31, 2023, the Board of Directors of the Company, approved a debt-to-equity conversion. The Company and Ms. Yan (the Company's Chief Executive Officer also the major shareholder) agreed to a debt conversion whereby Ms. Yan receives 5,000,000 shares of the Company's common stock in exchange for retirement of the $2,500,000 debt. The Board of Directors of the Company executed the Consent Resolution on June 2, 2023. On June 2, 2023, the closing price of the Company's common stocks trading on OTC Market was $0.51 per share. The Company incurred a $50,000 loss on this conversion.

***Critical Accounting Policies and Estimates***

Our management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements ("CFS"), which were prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported net sales and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and assumptions. We base our estimates on historical experience and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in Note 2 to our CFS, we believe the following accounting policies are the most critical to assist you in fully understanding and evaluating this management discussion and analysis.

***Basis of Presentation***

The accompanying consolidated financial statements ("CFS") are prepared in conformity with U.S. Generally Accepted Accounting Principles ("US GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. The functional currency of Bio Essence is U.S. dollars ("$"). The accompanying financial statements are presented in U.S. dollars ("$"). The consolidated financial statements include the financial statements of the Company and its subsidiaries, BEH (up to disposal date), and McBE (up to dissolution date). All significant inter-company transactions and balances were eliminated in consolidation.

***Going Concern***

The Company incurred net losses of $1,281,233 and $778,192 for the nine months ended September 30, 2024 and 2023, respectively. The Company incurred net losses of $1,199,493 and $314,842 for the three months ended June 30, 2024 and 2023, respectively. The Company also had an accumulated deficit of $10,421,707 from the company's continuing operations as of September 30, 2024. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company plans to increase its income by strengthening its sales force, providing attractive sales incentive programs, and increasing marketing and promotion activities. Management also intends to raise additional funds by way of a private or public offering, or by obtaining loans from banks or others. While the Company believes in the viability of its strategy to generate sufficient revenue and in its ability to raise additional funds on reasonable terms and conditions, there can be no assurances to that effect. The ability of the Company to continue as a going concern is dependent upon the Company's ability to further implement its business plan and generate sufficient revenue and its ability to raise additional funds by way of a public or private offering. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

***Use of Estimates***

In preparing financial statements in conformity with US GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period.

Significant estimates, required by management, include the recoverability of long-lived assets, allowance for doubtful accounts, and the reserve for obsolete and slow-moving inventories. Actual results could differ from those estimates.

**Credit Losses**

On January1, 2023, the Company adopted Accounting Standards Update 2016-13 "Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The adoption of the credit loss accounting standard has no material impact on the Company's consolidated financial statements as of January 1, 2023.

The Company's account receivables and other receivables in the balance sheet are within the scope of ASC Topic 326. As the Company has limited customers and debtors, the Company uses the loss-rate method to evaluates the expected credit losses on an individual basis. When establishing the loss rate, the Company makes the assessment on various factors, including historical experience, credit-worthiness of customers and debtors, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from the customers and debtors. The Company also provides specific provisions for allowance when facts and circumstances indicate that the receivable is unlikely to be collected.

Expected credit losses are recorded as allowance for credit losses on the consolidated statements of operations. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. In the event the Company recovers amount that is previously reserved for, the Company will reduce the specific allowance for credit losses.

**Accounts Receivable, Net**

The Company's policy is to maintain an allowance for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. As of September 30, 2024 and December 31, 2023, there was no bad debt allowance. As of December 31, 2023, the bad debt allowance from discontinued operation (BEH) was $2,252.

***Revenue Recognition***

The Company recognizes revenues following the five-step model prescribed under ASC 606: (i) identify contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenues when (or as) we satisfy the performance obligation.

Revenue is measured at the amount of consideration we expect to receive in exchange for the sale of our product, which occurs at a point in time, typically upon delivery to the customer. The Company expenses incremental costs of obtaining a contract as and when incurred if the expected amortization period of the asset that it would have recognized is one year or less or the amount is immaterial.

Revenues from sales of goods are measured at net of reserves established for applicable discounts and allowances that are offered within contracts with the Company's customers, and are recognized when the goods are delivered to the customers.

Product revenue reserves, which are classified as a reduction in product revenues, are generally characterized in the following categories: discounts, returns and rebates. These reserves are based on estimates of the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable as the amount is payable to the Company's customers.

Revenues from manufacture services are recognized when the manufacture process is completed pursuant to the customers' requirement and the finished goods were delivered to the customers.

The Company's return policy allows for the return of damaged or defective products and shipment errors. A notice of damage or wrong items should make within five days from receiving the goods, and actual return of the products must be completed within 30 days from the date of receiving the goods. Delayed notification for damaged or wrong products will not be accepted for return or exchange. Custom formulas and capsules are not returnable. The amount for return of products was immaterial for the nine and three months ended September 30, 2024 and 2023.

***Results of operations***

***Comparison of continuing operations for the nine months ended September 30, 2024 and 2023***

The following table sets forth the results of our opera*tions for the periods* indicated as a percentage of net sales. Certain columns may not add due to rounding.

| | 2024 | % of Sales | 2023 | % of Sales | Dollar Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|---|---|
| Revenues | $ 176,385 | 100.00% | $ - | -% | $ 176,385 | 100.00% |
| Cost of revenues | 66,206 | 37.53% | - | -% | 66,206 | 100.00% |
| Gross profit | 110,179 | 62.47% | - | % | 110,179 | 100.00% |
| Selling expenses | - | -% | - | -% | - | -% |
| General and administrative expenses | 573,469 | 325.12% | 150,114 | -% | 423,355 | 282.02% |
| Total operating expenses | 573,469 | 325.12% | 150,114 | -% | 423,355 | 282.02% |
| Loss from operations | (463,290) | (262.66)% | (150,114) | -% | (313,176) | 208.63% |
| Other expenses, net | (1,074,068) | (608.93)% | (69,842) | -% | (1,004,226) | 1437.85% |
| Loss before income taxes | (1,537,358) | (871.59)% | (219,956) | -% | (1,317,402) | 598.94% |
| Income tax expense | 800 | 0.45% | 1,600 | -% | (800) | (50.00)% |
| Net loss from continuing operations | (1,538,158) | (872.05)% | (221,556) | -% | (1,316,602) | 594.25% |
| Loss from discontinued operations | (120,827) | (68.50)% | (556,636) | -% | 435,809 | (78.29)% |
| Gain from disposal of discontinued operations | 377,752 | 214.16% | - | - | 377,752 | 100.00% |
| Net loss | $ (1,281,233) | (726.38)% | $ (778,192) | -% | $ (503,041) | (64.64)% |

*Revenues*

Revenues from the company's continuing operations for the nine months ended September 30, 2024 and 2023 were $176,385 and $nil, respectively. We had $37,414 product sales, $136,109 OEM service revenue, and $2,861 other revenue for the nine months ended September 30, 2024. Revenues from the company's discontinued operations for the nine months ended September 30, 2024 and 2023 were $153,865 and $756,598, respectively.

*Costs of revenues*

Costs of revenues from the company's continuing operations for the nine months ended September 30, 2024 and 2023 was $66,206 and $nil, respectively. We had $17,974 cost of sales for products, $45,693 cost for OEM service revenue, and $2,539 other costs for the nine months ended September 30, 2024. Costs of revenues from the company's discontinued operations for the nine months ended September 30, 2024 and 2023 was $76,592 and $455,630, respectively.

*Gross profit*

For the factors mentioned above, the gross profit from the company's continuing operations for the nine months ended September 30, 2024 and 2023 was $110,179 and $nil, respectively. The gross profit from the company's discontinued operations for the nine months ended September 30, 2024 and 2023 was $77,273 and $300,968, respectively.

*Operating expenses*

Selling expenses consisted mainly of advertising, show expense, products marketing, shipping expenses, and promotion expenses. Selling expense from the company's continuing operations was $nil for the nine months ended September 30, 2024, compared to $nil for the nine months ended September 30, 2023. Selling expense from the company's discontinued operations was $13,716 for the nine months ended September 30, 2024, compared to $96,509 for the nine months ended September 30, 2023.

General and administrative expenses consisted mainly of employee salaries and welfare, business meeting, utilities, accounting, consulting, and legal expenses. General and administrative expenses from the company's continuing operations were $573,469 for the nine months ended September 30, 2024, compared to $150,114 for the nine months ended September 30, 2023, an increase of $423,355 or 282.02%, the increase was mainly due to increased office rent by $396,217, increased consulting fee by $23,265, increased other G&A expenses by $3,873. General and administrative expenses from the company's discontinued operations was $178,936 for the nine months ended September 30, 2024, compared to $802,416 for the nine months ended September 30, 2023.

*Other expenses, net*

Other expenses from the company's continuing operations was $1,074,068 and $69,842 for the nine months ended September 30, 2024 and 2023, respectively. For the nine months ended September 30, 2024, other expenses mainly consisted of interest expense of $1,617, impairment of ROU asset of $1,050,940 due to early termination of the lease, and other expenses of $54,597, which was partly offset by other income of $33,086. For the nine months ended September 30, 2023, other expenses mainly consisted of interest expense of $1,652, other expenses of $73,058, which was partly offset by net other income of $4,868. Other expenses from the company's discontinued operations were $5,448 for the nine months ended September 30, 2024, compared to $42,921 for the nine months ended September 30, 2023.

*Net loss from continuing operations*

We had a net loss of $1,538,158 from the company's continuing operations for the nine months ended September 30, 2024, compared to $221,556 for the nine months ended September 30, 2023, an increase of $1,316,602 or 594.25%.

*Net loss from discontinued operations*

We had net gain of $256,925 from the company's discontinued operations for the nine months ended September 30, 2024 compared to net loss of $556,636 for the nine months end ended September 30, 2023.

***Comparison of continuing operations for the three months ended September 30, 2024 and 2023***

The following table sets forth the results of our opera*tions for the periods* indicated as a percentage of net sales. Certain columns may not add due to rounding.

| | 2024 | % of Sales | 2023 | % of Sales | Dollar Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|---|---|
| Revenues | $ 134,690 | 100.00% | $ - | -% | $ 134,690 | 100.00% |
| Cost of revenues | 53,698 | 39.87% | - | -% | 53,698 | 100.00% |
| Gross profit | 80,992 | 60.13% | - | % | 80,992 | 100.00% |
| Selling expenses | - | -% | - | -% | - | -% |
| General and administrative expenses | 227,440 | 168.86% | 82,644 | -% | 144,796 | 175.20% |
| Total operating expenses | 277,440 | 168.86% | 82,644 | -% | 144,796 | 175.20% |
| Loss from operations | (146,448) | (108.73)% | (82,644) | -% | (63,804) | 77.20% |
| Other expenses, net | (1,053,045) | (781.83)% | (22,406) | -% | (1,030,639) | 4599.83% |
| Loss before income taxes | (1,199,493) | (890.56)% | (105,050) | -% | (1,094,443) | 1041.83% |
| Income tax expense | - | -% | - | -% | - | -% |
| Net loss from continuing operations | (1,199,493) | (890.56)% | (105,050) | -% | (1,094,443) | 1041.83)% |
| Loss from discontinued operations | - | - % | (209,792) | -% | 209,792 | (100.00)% |
| Net loss | $ (1,199,493) | (890.56)% | $ (314,842) | -% | $ (884,651) | 280.98% |

*Revenues*

Revenues from the company's continuing operations for the three months ended September 30, 2024 and 2023 were $134,690 and $nil, respectively, an increase of $134,690. Revenues from the company's discontinued operations for the three months ended September 30, 2024 and 2023 were $nil and $155,695, respectively.

*Costs of revenues*

Costs of revenues from the company's continuing operations for the three months ended September 30, 2024 and 2023 was $53,698 and $nil, respectively. Costs of revenues from the company's discontinued operations for the three months ended September 30, 2024 and 2023 was $nil and $130,924, respectively.

*Gross profit*

For the factors mentioned above, the gross profit from the company's continuing operations for the three months ended September 30, 2024 and 2023 was $80,992 and $nil, respectively. The gross profit from the company's discontinued operations for the three months ended September 30, 2024 and 2023 was $nil and $24,771, respectively.

*Operating expenses*

Selling expenses consisted mainly of advertising, show expense, products marketing, shipping expenses, and promotion expenses. Selling expense from the company's continuing operations was $nil for the three months ended September 30, 2024, compared to $nil for the three months ended September 30, 2023. Selling expense from the company's discontinued operations was $nil for the three months ended September 30, 2024, compared to $23,416 for the three months ended September 30, 2023.

General and administrative expenses consisted mainly of employee salaries and welfare, business meeting, utilities, accounting, consulting, and legal expenses. General and administrative expenses from the company's continuing operations were $227,440 for the three months ended September 30, 2024, compared to $82,466 for the three months ended September 30, 2023, an increase of $144,796 or 175.20%, the increase was mainly due to increased rent expense by $137,366, increased salary by $10,000, which was partly offset by Office CAM fee of $6,280. General and administrative expenses from the company's discontinued operations was $nil for the three months ended September 30, 2024, compared to $265,859 for the three months ended September 30, 2023.

*Other income (expenses), net*

Other expenses from the company's continuing operations was $1,053,045 and $22,406 for the three months ended September 30, 2024 and 2023, respectively. For the three months ended September 30, 2024, other expenses were mainly the impairment of ROU asset of $1,050,940 due to early termination of the lease, and interest expense of $536. For the three months ended September 30, 2023, other expenses mainly consisted of interest expense of $548, and other expenses of $23,058, which was partly offset by net other income of $1,200. Other income from the company's discontinued operations was $nil for the three months ended September 30, 2024, compared to $54,712 for the three months ended September 30, 2023.

*Net loss from continuing operations*

We had a net loss of $1,199,493 from the company's continuing operations for the three months ended September 30, 2024, compared to $105,050 for the three months ended September 30, 2023, an increase of $1,094,443 or 1041.83%.

*Net loss from discontinued operations*

We had net loss of $nil for the three months ended September 30, 2024, compared to net loss of $209,792 from discontinued operations for the three months end ended September 30, 2023.

***Liquidity and Capital Resources***

As of September 30, 2024, from the company's continuing operations, we had cash and equivalents of $29,818, other current assets of $685,764, other current liabilities of $3,066,968, working capital deficit of $2,351,386, a current ratio of 0.23:1. As of December 31, 2023, from the company's continuing operations, we had cash and equivalents of $nil, bank overdraft of $9,436, other current assets of $300,000, other current liabilities (excluding bank overdraft) of $2,441,020, working capital deficit of $2,150,456, a current ratio of 0.12:1.

The following is a summary of cash provided by or used in each of the indicated types of activities during the nine months ended September 30, 2024, and 2023, respectively.

| | 2024 | 2023 |
|---|---|---|
| Net cash provided by (used in) operating activities for continuing operations | $ 337,576 | $ (201,599) |
| Net cash used in operating activities for discontinued operations | (136,777) | (619,980) |
| **Net cash provided by (used in) operating activities** | 200,799 | (821,579) |
| | | |
| Net cash used in investing activities for continuing operations | - | (3,614) |
| Net cash used in investing activities for discontinued operations | - | - |
| **Net cash used in investing activities** | - | (3,614) |
| | | |
| Net cash provided by (used in) financing activities for continuing operations | (161,658) | 866,753 |
| Net cash used in financing activities for discontinued operations | (9,323) | (47,733) |
| **Net cash provided by (used in) financing activities** | $ (170,981) | $ 819,020 |

*Net cash provided by (used in) operating activities for continuing operations*

Net cash provided by operating activities for continuing operations was $337,576 for the nine months ended September 30, 2024, compared to net cash used in operating activities of $201,599 in 2023. The increase of cash inflow of $539,175 from operating activities of continuing operations for the nine months ended September 30, 2024 was principally attributable to $300,000 payment received from sale of BEP, decreased prepayment and deposits to vendors by $79,545, decreased payment on accounts payable by $26,755, increased payment from customer deposit by $146,000, and decreased payment on accrued labilities and other payables by $202,097; which was partly offset by decreased collection from accounts receivable by $65,470, and decreased payment collected on other receivables by $197,294.

*Net cash used in investing activities for continuing operations*

Net cash used in investing activities for continuing operations was $nil for the nine months ended September 30, 2024, compared to net cash used in investing activities for continuing operations of $3,614 in 2023, which was mainly for leasehold improvements.

*Net cash provided by (used in) financing activities for continuing operations*

Net cash used in financing activities for continuing operations was $161,658 for the nine months ended September 30, 2024, compared to net cash provided by financing activities for continuing operations of $866,753 in 2023. The net cash used in financing activities for nine months ended September 30, 2024 mainly consisted of $151,300 loan repayment to one major shareholder (also the senior officer), decreased bank overdraft of $9,436, and payment of government loan of $922. The net cash provided by financing activities for the nine months ended September 30, 2023 consisted of proceeds of $865,491 from loan from one major shareholder (also the senior officer), and increased bank overdraft of $2,050, partly offset by payment of government loans of $788.

Our current liabilities exceed current assets at September 30, 2024, and we incurred substantial losses and cash outflows from operating activities in the periods presented. We may have difficulty meeting upcoming cash requirements. As of September 30, 2024, our principal source of funds was loans from an officer (also is the Company's major shareholder). As of September 30, 2024, we believe we will need $1.2 million cash to continue our current business for the next 12 months. In addition to our continuous effort to improve our sales and net profits, we have explored and continue to explore other options to provide additional financing to fund future operations as well as other possible courses of action. Such actions may include, but are not limited to, securing lines of credit, sales of debt or equity securities (which may result in dilution to existing shareholders), loans and cash advances from other third parties or banks, and other similar actions. There can be no assurance that we will be able to obtain additional funding (if needed), on acceptable terms or at all, through a sale of our common stock, loans from financial institutions, or other third parties, or any of the actions discussed above. If we cannot sustain profitable operations, and additional capital is unavailable, lack of liquidity could have a material adverse effect on our business viability, financial position, results of operations and cash flows.

**Contractual Obligations**

***Long-Term Debts***

**Government loans**

In May and June 2020, BEH, BEP and FDS received total of $215,600 from the Economic Injury Disaster Loan ("EIDL loan") from the SBA after deducting $100 Uniform Commercial Code ("UCC") handling charge and filing fee for each company. This is a low-interest federal disaster loan for working capital to small businesses and non-profit organizations of any size suffering substantial economic injury as a result of the Coronavirus (COVID-19), to help the businesses to meet financial obligations and operating expenses that could have been met had the disaster not occurred. This loan has interest of 3.75% and is not forgivable. The maturity of the loan is 30 years, installment payments including principal and interest of $515 monthly will begin 12 months from the date of the promissory note. On March 4, 2022, The FDS transferred its EIDL loan to BEC due to the dissolution of FDS. The SBA extended the deferment period to allow small businesses and not-for-profits that received EIDL funds do not have to begin payments on the loan until 30 months after the date of the note. Accordingly, the company began to make installment payments in the fourth quarter 2022.

As of September 30, 2024, the future minimum EIDL loan payments from the company's continuing operations to be paid by year are as follows:

| Year Ending | Amount (unaudited) |
|---|---|
| September 30, 2025 | $ 1,344 |
| September 30, 2026 | 1,395 |
| September 30, 2027 | 1,448 |
| September 30, 2028 | 1,504 |
| September 30, 2029 | 1,561 |
| Thereafter | 49,542 |
| Total | $ 56,794 |

***Off-Balance Sheet Arrangements***

We have not entered into any financial guarantees or other commitments to guarantee the obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

As a smaller reporting company, as defined in 17 CFR § 229.10(f)(1), we are not required to provide the information requested by this Item.

**Item 4. Controls and Procedures.**

The Company's Chief Executive Officer, Yin Yan, and Chief Financial Officer, William Sluss, are responsible for establishing and maintaining disclosure controls and procedures for the Company.

***Evaluation of Disclosure Controls and Procedures***

For purposes of this Item 4, the term disclosure controls and procedures means controls and other procedures of the Company (i) that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (15 U.S.C. 78a *et seq.* and hereinafter the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC, and (ii) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

On September 30, 2024, Ms. Yan and Mr. Sluss reviewed the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report and has concluded that the Company's disclosure controls and procedures are not effective to ensure that material information relating to the Company is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC. Ms. Yan and Mr. Sluss will continue to work on implementing controls and procedures to remedy this matter.

**Report of Management**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"), as defined in Exchange Act Rule 13a-15. Our ICFR is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. Management conducted an assessment of our ICFR based on the framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework (2013). Based on the assessment, management concluded that, as of September 30, 2024, our ICFR were not effective at the reasonable assurance level based on those criteria. Management will continue to work to develop ICFR and controls over our reporting procedures.

Our independent public accountant has not conducted an audit of our controls and procedures regarding ICFR and therefore expresses no opinion with regards to the effectiveness or implementation of our controls and procedures with regards to ICFR.

**Changes in Internal Controls over Financial Reporting**

There were no changes in our ICFR identified in connection with our evaluation of these controls as of the end of the quarter ending on September 30, 2024, as covered by this report that has materially affected, or is reasonably likely to materially affect, our ICFR.

**Inherent Limitations on Effectiveness of Controls**

The Company's management does not expect that its disclosure controls or its ICFR will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can

provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. 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. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ending on September 30, 2024 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

**Item 1. Legal Proceedings.**

None.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

| | | | Incorporated by reference | | | |
|---|---|---|---|---|---|---|
| **Exhibit** | **Exhibit Description** | **Filed herewith** | **Form** | **Period ending** | **Exhibit** | **Filing date** |
| 31.1 | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 32.1 | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 101.INS | Inline XBRL Instance Document | X | | | | |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document. | X | | | | |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. | X | | | | |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. | X | | | | |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. | X | | | | |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. | X | | | | |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). | X | | | | |

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

BIO ESSENCE CORP.

*/s/ Yin Yan*

*By:* *Yin Yan*
Its: Chairman of the Board, Chief Executive Officer
Date: November 14, 2024

*/s/ William E. Sluss*

By: William E. Sluss
Its: Chief Financial Officer
Dated: November 14, 2024