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

FORM 20-F

(Mark one)

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

OR

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

For the fiscal year ended June 30, 2019.

OR

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

OR

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

for the transition period from _____ to _____

Commission file number 001-38505

CLPS Incorporation

(Exact name of the Registrant as specified in its charter)

Cayman Islands

(Jurisdiction of incorporation or organization)

**c/o 2nd Floor, Building 18, Shanghai Pudong Software Park
498 Guoshoujing Road, Pudong, Shanghai 201203
People's Republic of China
Tel: (+86) 21-31268010**

(Address of principal executive office)

**Raymond Ming Hui Lin, Chief Executive Officer
c/o 2nd Floor, Building 18, Shanghai Pudong Software Park
498 Guoshoujing Road, Pudong, Shanghai 201203
People's Republic of China
Tel: (+86) 21-31268010**

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, par value \$0.0001	CLPS	The NASDAQ Stock Market LLC

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

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

On October 11, 2019, the issuer had 13,913,201 shares outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

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

Large Accelerated filer Accelerated filer Non-accelerated filer

Emerging growth company

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

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

US GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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

Item 17 Item 18

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

Yes No

TABLE OF CONTENTS

	<u>PAGE</u>	
<u>PART I</u>		
<u>ITEM 1.</u>	<u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	1
<u>ITEM 2.</u>	<u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	1
<u>ITEM 3.</u>	<u>KEY INFORMATION</u>	1
<u>ITEM 4.</u>	<u>INFORMATION ON THE COMPANY</u>	28
<u>ITEM 4A.</u>	<u>UNRESOLVED STAFF COMMENTS</u>	53
<u>ITEM 5.</u>	<u>OPERATING AND FINANCIAL REVIEW AND PROSPECT</u>	53
<u>ITEM 6.</u>	<u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	73
<u>ITEM 7.</u>	<u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	84
<u>ITEM 8.</u>	<u>FINANCIAL INFORMATION</u>	86
<u>ITEM 9.</u>	<u>THE OFFER AND LISTING</u>	87
<u>ITEM 10.</u>	<u>ADDITIONAL INFORMATION</u>	87
<u>ITEM 11.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK</u>	94
<u>ITEM 12.</u>	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	94
<u>PART II</u>		
<u>ITEM 13.</u>	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	95
<u>ITEM 14.</u>	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	95
<u>ITEM 15.</u>	<u>CONTROLS AND PROCEDURES</u>	95
<u>ITEM 16.</u>	<u>RESERVED</u>	97
<u>ITEM 16A.</u>	<u>AUDIT COMMITTEE FINANCIAL EXPERT.</u>	97
<u>ITEM 16B.</u>	<u>CODE OF ETHICS.</u>	97
<u>ITEM 16C.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES.</u>	97
<u>ITEM 16D.</u>	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.</u>	97
<u>ITEM 16E.</u>	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.</u>	98
<u>ITEM 16F.</u>	<u>CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT.</u>	98
<u>ITEM 16G.</u>	<u>CORPORATE GOVERNANCE</u>	98
<u>PART III</u>		
<u>ITEM 17.</u>	<u>FINANCIAL STATEMENTS</u>	99
<u>ITEM 18.</u>	<u>FINANCIAL STATEMENTS</u>	99
<u>ITEM 19.</u>	<u>EXHIBITS</u>	100

CERTAIN INFORMATION

Unless otherwise indicated, numerical figures included in this Annual Report on Form 20-F (the “Annual Report”) have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in various tables may not be arithmetic aggregations of the figures that precede them.

For the sake of clarity, this Annual Report follows the English naming convention of first name followed by last name, regardless of whether an individual’s name is Chinese or English. Certain market data and other statistical information contained in this Annual Report are based on information from independent industry organizations, publications, surveys and forecasts. Some market data and statistical information contained in this Annual Report are also based on management’s estimates and calculations, which are derived from our review and interpretation of the independent sources listed above, our internal research and our knowledge of the PRC information technology industry. While we believe such information is reliable, we have not independently verified any third-party information and our internal data has not been verified by any independent source.

Except where the context otherwise requires and for purposes of this Annual Report only:

- Depending on the context, the terms “we,” “us,” “our company,” and “our” refer to CLPS Incorporation, a Cayman Islands company, and its subsidiary and affiliated companies:
- “Qinheng” refers to Qinheng Co., Limited, a Hong Kong company;
- “Qiner” refers to Qiner Co., Limited, a Hong Kong company;
- “CLIVST” refers to CLIVST Ltd., a British Virgin Islands company;
- “FDT-CL” refers to FDT-CL Financial Technology Services Limited, a Hong Kong company;
- “JQ” refers to JQ Technology Co., Limited, a Hong Kong company;
- “JL” refers to JIALIN Technology Limited, a Taiwan company;
- “CLPS QC (WFOE)” refers to Shanghai Qincheng Information Technology Co., Ltd., a PRC company;
- “CLPS Shanghai” refers to ChinaLink Professional Services Co., Ltd., a PRC company;
- “CLPS Dalian” refers to CLPS Dalian Co., Ltd., a PRC company;
- “CLPS RC” refers to CLPS Ruicheng Co., Ltd., a PRC company;
- “CLPS Beijing” refers to CLPS Beijing Hengtong Co., Ltd., a PRC company;
- “Judge China” refers to Judge (Shanghai) Co., Ltd., a PRC company;
- “Judge HR” refers to Judge (Shanghai) Human Resource Co., Ltd., a PRC company;
- “CLPS AU” refers to CLPS Technology (Australia) Pty. Ltd., an Australian company;
- “CLPS SG” refers to CLPS Technology (Singapore) Pte. Ltd., a Singaporean company;
- “CLPS Hong Kong” refers to CLPS Technology (HK) Co., Limited, a Hong Kong company;
- “CLPS Shenzhen” refers to CLPS Shenzhen Co., Ltd., a PRC company;
- “Huanyu” refers to Tianjin Huanyu Qinshang Network Technology Co., Ltd., a PRC company;
- “CLPS Guangzhou” refers to CLPS Guangzhou Co., Ltd., a PRC company.
- “CLPS US” refers to CLPS Technology (US) Ltd., a US company.

- “CLPS Lihong” refers to CLPS Lihong Financial Information Services Co., Ltd., formerly Lihong Financial Information Services Co., Ltd. before the investment, a PRC company.
- “Infogain” refers to Infogain Solutions PTE. Ltd., a Singaporean company.
- “EMIT” refers to Economic Modeling Information Technology Co., Ltd., a PRC company.
- “shares” and “common shares” refer to our shares, \$0.0001 par value per share;
- “China” and “PRC” refer to the People’s Republic of China, excluding, for the purposes of this Annual Report only, Macau, Taiwan and Hong Kong; and
- all references to “RMB,” “yuan” and “Renminbi” are to the legal currency of China, and all references to “USD,” and “U.S. dollars” are to the legal currency of the United States.

Unless otherwise noted, all currency figures in this filing are in U.S. dollars. Any discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding. Our reporting currency is U.S. dollar and our functional currency is Renminbi. This Annual Report contains translations of certain foreign currency amounts into U.S. dollars for the convenience of the reader. Other than in accordance with relevant accounting rules and as otherwise stated, all translations of Renminbi into U.S. dollars in this Annual Report were made at the rate of RMB 6.8650 to USD1.00, the noon buying rate on June 30, 2019, as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. Where we make period-on-period comparisons of operational metrics, such calculations are based on the Renminbi amount and not the translated U.S. dollar equivalent. We make no representation that the Renminbi or U.S. dollar amounts referred to in this Annual Report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all.

FORWARD-LOOKING STATEMENTS

This Annual Report contains “forward-looking statements” that represent our beliefs, projections and predictions about future events. All statements other than statements of historical fact are “forward-looking statements” including any projections of earnings, revenue or other financial items, any statements of the plans, strategies and objectives of management for future operations, any statements concerning proposed new projects or other developments, any statements regarding future economic conditions or performance, any statements of management’s beliefs, goals, strategies, intentions and objectives, and any statements of assumptions underlying any of the foregoing. Words such as “may”, “will”, “should”, “could”, “would”, “predicts”, “potential”, “continue”, “expects”, “anticipates”, “future”, “intends”, “plans”, “believes”, “estimates” and similar expressions, as well as statements in the future tense, identify forward-looking statements.

These statements are necessarily subjective and involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from any future results, performance or achievements described in or implied by such statements. Actual results may differ materially from expected results described in our forward-looking statements, including with respect to correct measurement and identification of factors affecting our business or the extent of their likely impact, the accuracy and completeness of the publicly available information with respect to the factors upon which our business strategy is based on the success of our business.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of whether, or the times by which, our performance or results may be achieved. Forward-looking statements are based on information available at the time those statements are made and management’s belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to, those factors discussed under the headings “Risk Factors”, “Operating and Financial Review and Prospects,” “Information on the Company” and elsewhere in this Annual Report.

This Annual Report should be read in conjunction with our audited financial statements and the accompanying notes thereto, which are included in Item 18 of this Annual Report.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not required.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not required.

ITEM 3. KEY INFORMATION

A. Selected financial data

The following selected consolidated financial data as of and for the years ended June 30, 2019, 2018 and 2017 have been derived from the audited consolidated financial statements of the Company included in this Annual Report. This information is only a summary and should be read together with the consolidated financial statements, the related notes, the section entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and other financial information included in this Annual Report. The Company’s results of operations in any period may not necessarily be indicative of the results that may be expected for any future period. See “Risk Factors” included elsewhere in this Annual Report.

The following table presents our summary consolidated statements of comprehensive (loss) income for the fiscal years ended June 30, 2019, 2018 and 2017, respectively.

Selected Consolidated Statement of Comprehensive (Loss) Income

	For the years ended June 30,		
	2019	2018	2017
Revenues	\$ 64,932,937	\$ 48,938,593	\$ 31,361,976
Less: Cost of revenues	(41,178,356)	(31,277,255)	(18,669,812)
Gross profit	<u>23,754,581</u>	<u>17,661,338</u>	<u>12,692,164</u>
Operating expenses:			
Selling and marketing expenses	2,179,029	2,225,702	1,206,493
Research and development expenses	7,978,883	7,837,873	4,232,788
General and administrative expenses	17,384,393	5,871,622	5,647,790
Total operating expenses	<u>27,542,305</u>	<u>15,935,197</u>	<u>11,087,071</u>
(Loss) income from operations	(3,787,724)	1,726,141	1,605,093
Subsidies and other income, net	779,508	960,784	508,187
Other expenses	(92,429)	(84,155)	(10,469)
(Loss) income before income tax and share of loss in equity investees	(3,100,645)	2,602,770	2,102,811
Provision (benefits) for income taxes	186,615	(112,128)	(118,546)
(Loss) income before share of loss in equity investees	(3,287,260)	2,714,898	2,221,357
Share of loss in equity investees, net of tax	(145,329)	-	-
Net (loss) income	(3,432,589)	2,714,898	2,221,357
Less: Net (loss) income attributable to non-controlling interests	(162,813)	280,435	173,912
Net (loss) income attributable to CLPS Incorporation’s shareholders	<u>\$ (3,269,776)</u>	<u>\$ 2,434,463</u>	<u>\$ 2,047,445</u>
Other comprehensive (loss) income			
Foreign currency translation (loss) gain	\$ (429,348)	\$ 55,793	\$ (93,177)
Less: foreign currency translation (loss) gain attributable to non-controlling interest	(17,375)	10,200	1,732
Other comprehensive (loss) gain attributable to CLPS Incorporation’s shareholders	<u>\$ (411,973)</u>	<u>\$ 45,593</u>	<u>\$ (94,909)</u>
Comprehensive (loss) income attributable to CLPS Incorporation shareholders	\$ (3,681,749)	\$ 2,480,056	\$ 1,952,536
Non-controlling interests	(180,188)	290,635	175,644
	<u>\$ (3,861,937)</u>	<u>\$ 2,770,691</u>	<u>\$ 2,128,180</u>
Basic (loss) earnings per common share*	\$ (0.24)	\$ 0.21	\$ 0.18
Weighted average number of share outstanding – basic	13,843,764	11,517,123	11,290,000
Diluted (loss) earnings per common share*	\$ (0.24)	\$ 0.21	\$ 0.18
Weighted average number of share outstanding – diluted	<u>13,843,764</u>	<u>11,636,367</u>	<u>11,290,000</u>

* The shares and per share data are presented on a retroactive basis to reflect the nominal share issuance.

The following table presents our summary consolidated balance sheet data as of June 30, 2019 and 2018.

	As of June 30,	
	2019	2018
Cash and cash equivalents	\$ 6,601,335	\$ 9,742,886
Short-term investments	\$ 1,791,697	\$ -
Accounts receivable, net	\$ 19,263,584	\$ 16,267,835
Amounts due from underwriters on the over-allotment	\$ -	\$ 1,472,592
Escrow receivable	\$ 200,000	\$ -
Prepayments, deposits and other assets, net	\$ 1,028,154	\$ 1,231,217
Prepaid income tax	\$ 630,790	\$ 206,361
Amounts due from related parties	\$ 230,540	\$ 131,321
Total Current Assets	\$ 29,746,100	\$ 29,052,212
Property and equipment, net	\$ 566,591	\$ 333,897
Intangible assets, net	\$ 427,769	\$ 260,059
Goodwill	\$ 447,790	\$ 173,560
Escrow receivable	\$ -	\$ 200,000
Prepayments, deposits and other assets, net	\$ 222,507	\$ 119,372
Long-term investments	\$ 914,006	\$ 293,714
Deferred tax assets, net	\$ 338,221	\$ 512,097
Total Assets	\$ 32,662,984	\$ 30,944,911
Short-term bank loans	\$ 2,184,996	\$ 2,553,989
Accounts payable and other current liabilities	\$ 196,832	\$ 1,454,770
Tax payables	\$ 915,629	\$ 904,850
Deferred subsidies	\$ 109,250	\$ 125,080
Deferred revenues	\$ 124,192	\$ 200,836
Salaries and benefits payable	\$ 7,735,487	\$ 7,341,688
Amounts due to related parties	\$ -	\$ 208,342
Total Liabilities	\$ 11,266,386	\$ 12,789,555
Total CLPS Incorporation's Shareholders' Equity	\$ 20,788,436	\$ 17,479,074
Non-controlling Interests	\$ 608,162	\$ 676,282
Total Shareholders' Equity	\$ 21,396,598	\$ 18,155,356
Total Liabilities and Shareholders' Equity	\$ 32,662,984	\$ 30,944,911

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. On September 30, 2019, the buying rate announced by the Federal Reserve Statistical Release was RMB 7.1477 to \$1.00.

Period	Spot Exchange Rate			
	Period Ended	Average (1)	Low	High
	(RMB per US\$1.00)			
2017	6.5063	6.7569	6.4773	6.9575
2018	6.8755	6.6090	6.2649	6.9737
2019				
January	6.6958	6.7863	6.6958	6.8708
February	6.6912	6.7367	6.6822	6.7907
March	6.7112	6.7119	6.6916	6.7381
April	6.7347	6.7161	6.6870	6.7418
May	6.9027	6.8519	6.7319	6.9182
June	6.8650	6.8977	6.8510	6.9298
July	6.8833	6.8775	6.8487	6.8927
August	7.1543	7.0629	6.8972	7.1628
September	7.1477	7.1137	7.0659	7.1786

Source: <https://www.federalreserve.gov/releases/h10/hist/default.htm>.

- (1) Annual averages, lows, and highs are calculated from month-end rates. Monthly averages, lows, and highs are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not required.

C. Reasons for the Offer and Use of Proceeds

Not required.

D. Risk factors

You should carefully consider the following risk factors, together with all of the other information included in this Annual Report. Investment in our securities involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included in this Annual Report before making an investment decision. The risks and uncertainties described below represent our known material risks to our business. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, you may lose all or part of your investment.

Risks Related to Our Business

We may be unable to effectively manage our rapid growth, which could place significant strain on our management personnel, systems and resources. We may not be able to achieve anticipated growth, which could materially and adversely affect our business and prospects.

We have significantly grown and expanded our business recently. Our revenues grew from \$31.4 million in fiscal 2017 to \$48.9 million in fiscal 2018 and to \$64.9 million in fiscal 2019. We maintain ten delivery and/or R&D centers, of which seven are located in mainland China (Shanghai, Beijing, Dalian, Tianjin, Chengdu, Guangzhou and Shenzhen) and three are located globally (Hong Kong, Singapore and Australia), to serve different customers in various geographic locations. The number of our total employees grew from 1,248 in fiscal 2017 to 1,655 in fiscal 2018. As of June 30, 2019 we had 2,085 full-time employees. We are actively looking for additional locations to establish new offices and expand our current offices and sales and delivery centers. We intend to continue our expansion in the foreseeable future to pursue existing and potential market opportunities. Our growth has placed and will continue to place significant demands on our management and our administrative, operational and financial infrastructure. Continued expansion increases the challenges we face in:

- recruiting, training, developing and retaining sufficient IT talent and management personnel;
- creating and capitalizing upon economies of scale;
- managing a larger number of clients in a greater number of industries and locations;
- maintaining effective oversight of personnel and offices;
- coordinating work among offices and project teams and maintaining high resource utilization rates;
- integrating new management personnel and expanded operations while preserving our culture and core values;
- developing and improving our internal administrative infrastructure, particularly our financial, operational, human resources, communications and other internal systems, procedures and controls; and
- adhering to and further improving our high quality and process execution standards and maintaining high levels of client satisfaction.

Moreover, as we introduce new services or enter into new markets, we may face new market, technological and operational risks and challenges with which we are unfamiliar, and it may require substantial management efforts and skills to mitigate these risks and challenges. As a result of any of these challenges associated with expansion, our business, results of operations and financial condition could be materially and adversely affected. Furthermore, we may not be able to achieve anticipated growth, which could materially and adversely affect our business and prospects.

Adverse changes in the economic environment, either in China or globally, could reduce our clients' purchases from us and increase pricing pressure, which could materially and adversely affect our revenues and results of operations.

The IT services industry is particularly sensitive to the economic environment, whether in China or globally, and tends to decline during general economic downturns. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to the economic environment, especially for regions in which we and our clients operate. During an economic downturn, our clients may cancel, reduce or defer their IT spending or change their IT outsourcing strategy, and reduce their purchases from us. The recent global economic slowdown and any future economic slowdown, and the resulting diminution in IT spending, could also lead to increased pricing pressure from our clients. The occurrence of any of these events could materially and adversely affect our revenues and results of operations.

We face intense competition from onshore and offshore IT services companies, and, if we are unable to compete effectively, we may lose clients and our revenues may decline.

The market for IT services is highly competitive and we expect competition to persist and intensify. We believe that the principal competitive factors in our markets are industry expertise, breadth and depth of service offerings, quality of the services offered, reputation and track record, marketing and selling skills, scalability of infrastructure and price. In addition, the trend towards offshore outsourcing, international expansion by foreign and domestic competitors and continuing technological changes will result in new and different competitors entering our markets. In the IT outsourcing market, clients tend to engage multiple outsourcing service providers instead of using an exclusive service provider, which could reduce our revenues to the extent that clients obtain services from other competing providers. Clients may prefer service providers that have facilities located globally or that are based in countries more cost-competitive than China. Our ability to compete also depends in part on a number of factors beyond our control, including the ability of our competitors to recruit, train, develop and retain highly skilled professionals, the price at which our competitors offer comparable services and our competitors' responsiveness to client needs. Therefore, we cannot assure you that we will be able to retain our clients while competing against such competitors. Increased competition, our inability to compete successfully against competitors, pricing pressures or loss of market share could harm our business, financial condition and results of operations.

Due to intense competition for highly skilled personnel, we may fail to attract and retain enough sufficiently trained personnel to support our operations; as a result, our ability to bid for and obtain new projects may be negatively affected and our revenues could decline.

The IT services industry relies on skilled personnel, and our success depends to a significant extent on our ability to recruit, train, develop and retain qualified personnel, especially experienced middle and senior level management. The IT services industry in China has experienced significant levels of employee attrition. Our attrition rates were 15% and 16% per annum in 2017 and 2018, respectively; in 2019, this rate was 16%. We may encounter higher attrition rates in the future, particularly if China continues to experience strong economic growth. There is significant competition in China for skilled personnel, especially experienced middle and senior level management, with the skills necessary to perform the services we offer to our clients. Increased competition for these personnel, in the IT industry or otherwise, could have an adverse effect on us. Spearheaded by the institution that provides continuing education to all CLPS staff and develop new talents from partner universities to further drive the Company's growth ("CLPS Academy"), we have established TCP and TDP programs to increase our human capital and employee loyalty, however, a significant increase in our attrition rate could decrease our operating efficiency and productivity and could lead to a decline in demand for our services. Additionally, failure to recruit, train, develop and retain personnel with the qualifications necessary to fulfill the needs of our existing and future clients or to assimilate new personnel successfully could have a material adverse effect on our business, financial condition and results of operations. Failure to retain our key personnel on client projects or find suitable replacements for key personnel upon their departure may lead to termination of some of our client contracts or cancellation of some of our projects, which could materially and adversely affect our business.

Our success depends substantially on the continuing efforts of our senior executives and other key personnel, and our business may be severely disrupted if we lose their services.

Our future success heavily depends upon the continued services of our senior executives and other key employees. In particular, we rely on the expertise, experience, client relationships and reputation of Xiao Feng Yang, our Chairman, president and director. We currently do not maintain key man life insurance for any of the senior members of our management team or other key personnel. If one or more of our senior executives or key employees are unable or unwilling to continue in their present positions, it could disrupt our business operations, and we may not be able to replace them easily or at all. In addition, competition for senior executives and key personnel in our industry is intense, and we may be unable to retain our senior executives and key personnel or attract and retain new senior executive and key personnel in the future, in which case our business may be severely disrupted, and our financial condition and results of operations may be materially and adversely affected. If any of our senior executives or key personnel joins a competitor or forms a competing company, we may lose clients, suppliers, know-how and key professionals and staff members to them. Also, if any of our business development managers, who generally keep a close relationship with our clients, joins a competitor or forms a competing company, we may lose clients, and our revenues may be materially and adversely affected. Additionally, there could be unauthorized disclosure or use of our technical knowledge, practices or procedures by such personnel. Most of our executives and key personnel have entered into employment agreements with us that contain non-competition provisions, non-solicitation and nondisclosure covenants. However, if any dispute arises between our executive officers and key personnel and us, such non-competition, non-solicitation and nondisclosure provisions might not provide effective protection to us, especially in China, where most of these executive officers and key employees reside, in light of the uncertainties with China's legal system.

We generate a significant portion of our revenues from a relatively small number of major clients and loss of business from these clients could reduce our revenues and significantly harm our business.

We believe that in the foreseeable future we will continue to derive a significant portion of our revenues from a small number of major clients. For the years ended June 30, 2019, 2018 and 2017, Citibank and its affiliates accounted for 25.7%, 30.8% and 38.6% of the Company's total revenues, respectively. For fiscal 2019 and 2018, substantially all the service provided by the Company to Citibank was IT consulting services and billed through time-and-expense contracts. The Company has not entered into any material long term contracts with Citibank. Our ability to maintain close relationships with these and other major clients is essential to the growth and profitability of our business. However, the volume of work performed for a specific client is likely to vary from year to year, especially since we are generally not our clients' exclusive IT services provider and we do not have long-term commitments from any of our clients to purchase our services. The typical term for our service agreements is between 1 and 3 years. A major client in one year may not provide the same level of revenues for us in any subsequent year. The IT services we provide to our clients, and the revenues and income from those services, may decline or vary as the type and quantity of IT services we provide changes over time. In addition, our reliance on any individual client for a significant portion of our revenues may give that client a certain degree of pricing leverage against us when negotiating contracts and terms of service. In addition, a number of factors other than our performance could cause the loss of or reduction in business or revenues from a client, and these factors are not predictable. These factors may include corporate restructuring, pricing pressure, changes to its outsourcing strategy, switching to another services provider or returning work in-house. In the future, a small number of customers may continue to represent a significant portion of our total revenues in any given period. The loss of any of our major clients could adversely affect our financial condition and results of operations.

If we are unable to collect our receivables from our clients, our results of operations and cash flows could be adversely affected.

Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for work performed. As of June 30, 2019 and 2018, our accounts receivable balance, net of allowance, amounted to approximately \$19.3 million and \$16.3 million, respectively, and \$62,459 out of the \$16.3 million became a bad debt. As of the years ended June 30, 2019 and 2018, Citibank accounted for 30.0% and 35.9% of the Company's total accounts receivable balance. Since we generally do not require collateral or other security from our clients, we establish an allowance for doubtful accounts based upon estimates, historical experience and other factors surrounding the credit risk of specific clients. However, actual losses on client receivables balance could differ from those that we anticipate and as a result we might need to adjust our allowance. There is no guarantee that we will accurately assess the creditworthiness of our clients. Macroeconomic conditions, including related turmoil in the global financial system, could also result in financial difficulties for our clients, including limited access to the credit markets, insolvency or bankruptcy, and as a result could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or default on their payment obligations to us. As a result, an extended delay or default in payment relating to a significant account will have a material and adverse effect on the aging schedule and turnover days of our accounts receivable. If we are unable to collect our receivables from our clients in accordance with the contracts with our clients, our results of operations and cash flows could be adversely affected.

The growth and success of our business depends on our ability to anticipate and develop new services and enhance existing services in order to keep pace with rapid changes in technology and in the industries we focus on.

The market for our services is characterized by rapid technological change, evolving industry standards, changing client preferences and new product and service introductions. Our future growth and success depend significantly on our ability to anticipate developments in IT services, and develop and offer new product and service lines to meet our clients' evolving needs. We may not be successful in anticipating or responding to these developments in a timely manner, or if we do respond, the services or technologies we develop may not be successful in the marketplace. The development of some of the services and technologies may involve significant upfront investments and the failure of these services and technologies may result in our being unable to recover these investments, in part or in full. Further, services or technologies that are developed by our competitors may render our services uncompetitive or obsolete. In addition, new technologies may be developed that allow our clients to more cost-effectively perform the services that we provide, thereby reducing demand for our services. Should we fail to adapt to the rapidly changing IT services market or if we fail to develop suitable services to meet the evolving and increasingly sophisticated requirements of our clients in a timely manner, our business and results of operations could be materially and adversely affected.

We may be unsuccessful in entering into strategic alliances or identifying and acquiring suitable acquisition candidates, which could impede our growth and negatively affect our revenues and net income.

We have pursued and may continue to pursue strategic alliances and strategic acquisition opportunities to increase our scale and geographic presence, expand our service offerings and capabilities and enhance our industry and technical expertise. However, it is possible that in the future we may not succeed in identifying suitable alliances or acquisition candidates. Even if we identify suitable candidates, we may not be able to consummate these arrangements on terms commercially acceptable to us or to obtain necessary regulatory approvals in the case of acquisitions. Many of our competitors are likely to be seeking to enter into similar arrangements or acquire the same targets that we are looking to enter into or acquire. Such competitors may have substantially greater financial resources than we do and may be more attractive to our strategic partners or be able to outbid us for the targets. In addition, we may also be unable to timely deploy our existing cash balances to effect a potential acquisition, as use of cash balances located onshore in China may require specific governmental approvals or result in withholding and other tax payments. If we are unable to enter into suitable strategic alliances or complete suitable acquisitions, our growth strategy may be impeded and our revenues and net income could be negatively affected.

If we fail to integrate or manage acquired companies efficiently, or if the acquired companies do not perform to our expectations, we may not be able to realize the benefits envisioned for such acquisitions, and our overall profitability and growth plans may be adversely affected.

Historically, we have expanded our service capabilities and gained new clients through selective acquisitions. Our ability to successfully integrate an acquired entity and realize the benefits of any acquisition requires, among other things, successful integration of technologies, operations and personnel. Challenges we face in the acquisition and integration process include:

- integrating operations, services and personnel in a timely and efficient manner;

- unforeseen or undisclosed liabilities;
- generating sufficient revenue and net income to offset acquisition costs;
- potential loss of, or harm to, employee or client relationships;
- properly structuring our acquisition consideration and any related post-acquisition earn-outs and successfully monitoring any earn-out calculations and payments;
- retaining key senior management and key sales and marketing and research and development personnel;
- potential incompatibility of solutions, services and technology or corporate cultures;
- consolidating and rationalizing corporate, information technology and administrative infrastructures;
- integrating and documenting processes and controls;
- entry into unfamiliar markets; and
- increased complexity from potentially operating additional geographically dispersed sites, particularly if we acquire a company or business with facilities or operations outside of China.

In addition, the primary value of many potential targets in the outsourcing industry lies in their skilled professionals and established client relationships. Transitioning these types of assets to our business can be particularly difficult due to different corporate cultures and values, geographic distance and other intangible factors. For example, some newly acquired employees may decide not to work with us or to leave shortly after their move to our company and some acquired clients may decide to discontinue their commercial relationships with us. These challenges could disrupt our ongoing business, distract our management and employees and increase our expenses, including causing us to incur significant one-time expenses and write-offs, and make it more difficult and complex for our management to effectively manage our operations. If we are not able to successfully integrate an acquired entity and its operations and to realize the benefits envisioned for such acquisition, our overall growth and profitability plans may be adversely affected.

If we do not succeed in attracting new clients for our services and or growing revenues from existing clients, we may not achieve our revenue growth goals.

We plan to significantly expand the number of clients we serve to diversify our client base and grow our revenues. Revenues from a new client often rise quickly over the first several years following our initial engagement as we expand the services that we provide to that client. Therefore, obtaining new clients is important for us to achieve rapid revenue growth. We also plan to grow revenues from our existing clients by identifying and selling additional services to them. Our ability to attract new clients, as well as our ability to grow revenues from existing clients, depends on a number of factors, including our ability to offer high quality services at competitive prices, the strength of our competitors and the capabilities of our sales and marketing teams. If we are not able to continue to attract new clients or to grow revenues from our existing clients in the future, we may not be able to grow our revenues as quickly as we anticipate or at all.

As a result of our significant recent growth, evaluating our business and prospects may be difficult and our past results may not be indicative of our future performance.

Our future success depends on our ability to significantly increase revenue and maintain profitability from our operations. Our business has grown and evolved significantly in recent years. Our growth in recent years makes it difficult to evaluate our historical performance and makes a period-to-period comparison of our historical operating results less meaningful. We may not be able to achieve a similar growth rate or maintain profitability in future periods. Therefore, you should not rely on our past results or our historic rate of growth as an indication of our future performance. You should consider our future prospects in light of the risks and challenges encountered by a company seeking to grow and expand in a competitive industry that is characterized by rapid technological change, evolving industry standards, changing client preferences and new product and service introductions. These risks and challenges include, among others:

- the uncertainties associated with our ability to continue our growth and maintain profitability;

- preserving our competitive position in the IT services industry in China;
- offering consistent and high-quality services to retain and attract clients;
- implementing our strategy and modifying it from time to time to respond effectively to competition and changes in client preferences;
- managing our expanding operations and successfully expanding our solution and service offerings;
- responding in a timely manner to technological or other changes in the IT services industry;
- managing risks associated with intellectual property; and
- recruiting, training, developing and retaining qualified managerial and other personnel.

If we are unsuccessful in addressing any of these risks or challenges, our business may be materially and adversely affected.

We face risks associated with having a long selling and implementation cycle for our services that require us to make significant resource commitments prior to realizing revenues for those services.

We have a long selling cycle for our technology services, which requires significant investment of capital, human resources and time by both our clients and us. In our consulting service request, we collect service fees on monthly and quarterly basis; in our solution services segment – by performance obligation fulfillment. Before committing to use our services, potential clients require us to expend substantial time and resources educating them on the value of our services and our ability to meet their requirements. Therefore, our selling cycle is subject to many risks and delays over which we have little or no control, including our clients’ decision to choose alternatives to our services (such as other providers or in-house resources) and the timing of our clients’ budget cycles and approval processes. Implementing our services also involves a significant commitment of resources over an extended period of time from both our clients and us. Our clients may experience delays in obtaining internal approvals or delays associated with technology, thereby further delaying the implementation process. Our current and future clients may not be willing or able to invest the time and resources necessary to implement our services, and we may fail to close sales with potential clients to which we have devoted significant time and resources, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our profitability will suffer if we are not able to maintain our resource utilization levels and continue to improve our productivity levels.

Our gross margin and profitability are significantly impacted by our utilization levels of human resources as well as other resources, such as computers, IT infrastructure and office space, and our ability to increase our productivity levels. We have expanded our operations significantly in recent years through organic growth and external acquisitions, which has resulted in a significant increase in our headcount and fixed overhead costs. We may face difficulties maintaining high levels of utilization, especially for our newly established or newly acquired businesses and resources. The master service agreements with our clients typically do not impose a minimum or maximum purchase amount and allow our clients to place service orders from time to time at their discretion. Client demand may fall to zero or surge to a level that we cannot cost-effectively satisfy. Although we try to use all commercially reasonable efforts to accurately estimate service orders and resource requirements from our clients, we may overestimate or underestimate, which may result in unexpected cost and strain or redundancy of our human capital and adversely impact our utilization levels. In addition, some of our professionals are specially trained to work for specific clients or on specific projects and some of our sales and delivery center facilities are dedicated to specific clients or specific projects. Our ability to continually increase our productivity levels depends significantly on our ability to recruit, train, develop and retain high-performing professionals, staff projects appropriately and optimize our mix of services and delivery methods. If we experience a slowdown or stoppage of work for any client or on any project for which we have dedicated professionals or facilities, we may not be able to efficiently reallocate these professionals and facilities to other clients and projects to keep their utilization and productivity levels high. If we are not able to maintain high resource utilization levels without corresponding cost reductions or price increases, our profitability will suffer.

A significant portion of our income is generated, and will in the future continue to be generated, on a project basis with a fixed price; we may not be able to accurately estimate costs and determine resource requirements in relation to our projects, which would reduce our margins and profitability.

A significant portion of our income is generated, and will in the future continue to be generated, from fees we receive for our projects with a fixed price. Our projects often involve complex technologies, entail the coordination of operations and workforces in multiple locations, utilizing workforces with different skill sets and competencies and geographically distributed service centers, and must be completed within compressed timeframes and meet client requirements that are subject to change and increasingly stringent. In addition, some of our fixed-price projects are multi-year projects that require us to undertake significant projections and planning related to resource utilization and costs. If we fail to accurately assess the time and resources required for completing projects and to price our projects profitably, our business, results of operations and financial condition could be adversely affected.

Increases in wages for professionals in China could prevent us from sustaining our competitive advantage and could reduce our profit margins.

Our most significant costs are the salaries and other compensation expenses for our professionals and other employees. Wage costs for professionals in China are lower than those in more developed countries and India. However, because of rapid economic growth, increased productivity levels, and increased competition for skilled employees in China, wages for highly skilled employees in China, in particular middle- and senior-level managers, are increasing at a faster rate than in the past. We may need to increase the levels of employee compensation more rapidly than in the past to remain competitive in attracting and retaining the quality and number of employees that our business requires. Increases in the wages and other compensation we pay our employees in China could reduce our competitive advantage unless we are able to increase the efficiency and productivity of our professionals as well as the prices we can charge for our services. In addition, any appreciation in the value of the Renminbi relative to U.S. dollar and other foreign currencies will cause an increase in the relative wage levels in China, which could further reduce our competitive advantage and adversely impact our profit margin.

The international nature of our business exposes us to risks that could adversely affect our financial condition and results of operations.

We conduct our business throughout the world in multiple locations. As a result, we are exposed to risks typically associated with conducting business internationally, many of which are beyond our control. These risks include:

- significant currency fluctuations between the Renminbi and the U.S. dollar and other currencies in which we transact business;
- legal uncertainty owing to the overlap and inconsistencies of different legal regimes, problems in asserting contractual or other rights across international borders and the burden and expense of complying with the laws and regulations of various jurisdictions;
- potentially adverse tax consequences, such as scrutiny of transfer pricing arrangements by authorities in the countries in which we operate;
- current and future tariffs and other trade barriers, including restrictions on technology and data transfers;
- unexpected changes in regulatory requirements; and
- terrorist attacks and other acts of violence or war.

The occurrence of any of these events could have a material adverse effect on our results of operations and financial condition.

Our net revenues and results of operations are affected by seasonal trends.

Our business is affected by seasonal trends. In particular, our net revenues are typically progressively higher in the second, third and fourth quarters of each year compared to the first quarter of each year due to seasonal trends, such as: (i) a general slowdown in business activities and a reduced number of working days for our professionals during the first quarter of each year as a result of the Chinese New Year holiday period, and (ii) our customers in general tend to spend their IT budgets in the second half of the year and in particular the fourth quarter. Other factors that may cause our quarterly operating results to fluctuate include, among others, changes in general economic conditions in China and the impact of unforeseen events. We believe that our net revenues will continue to be affected in the future by seasonal trends. As a result, you may not be able to rely on period to period comparisons of our operating results as an indication of our future performance, and we believe it is more meaningful to evaluate our business on an annual basis.

We may be forced to reduce the prices of our services due to increased competition and reduced bargaining power with our clients, which could lead to reduced revenues and profitability.

The services outsourcing industry in China is developing rapidly and related technology trends are constantly evolving. This results in the frequent introduction of new services and significant price competition from our competitors. We may be unable to offset the effect of declining average sales prices through increased sales volumes and or reductions in our costs. Furthermore, we may be forced to reduce the prices of our services in response to offerings made by our competitors. Finally, we may not have the same level of bargaining power we have enjoyed in the past when it comes to negotiating for the prices of our services.

If we cause disruptions to our clients' businesses or provide inadequate service, our clients may have claims for substantial damages against us, and as a result our profits may be substantially reduced.

If our professionals make errors in the course of delivering services to our clients or fail to consistently meet service requirements of a client, these errors or failures could disrupt the client's business, which could result in a reduction in our net revenues or a claim for substantial damages against us. In addition, a failure or inability to meet a contractual requirement could seriously damage our reputation and affect our ability to attract new business. The services we provide are often critical to our clients' businesses. We generally provide customer support from three months to one year after our customized application is delivered. Certain of our client contracts require us to comply with security obligations including maintaining network security and back-up data, ensuring our network is virus-free, maintaining business continuity planning procedures, and verifying the integrity of employees that work with our clients by conducting background checks. Any failure in a client's system or breach of security relating to the services we provide to the client could damage our reputation or result in a claim for substantial damages against us. Any significant failure of our equipment or systems, or any major disruption to basic infrastructure like power and telecommunications in the locations in which we operate, could impede our ability to provide services to our clients, have a negative impact on our reputation, cause us to lose clients, reduce our revenues and harm our business. Under our contracts with our clients, our liability for breach of our obligations is in some cases limited to a certain percentage of contract price. Such limitations may be unenforceable or otherwise may not protect us from liability for damages. In addition, certain liabilities, such as claims of third parties for which we may be required to indemnify our clients, are generally not limited under our contracts. We currently do not have commercial general or public liability insurance. The successful assertion of one or more large claims against us could have a material adverse effect on our business, reputation, results of operations, financial condition and cash flows. Even if such assertions against us are unsuccessful, we may incur reputational harm and substantial legal fees.

We may be liable to our clients for damages caused by unauthorized disclosure of sensitive and confidential information, whether through our employees or otherwise.

We are typically required to manage, utilize and store sensitive or confidential client data in connection with the services we provide. Under the terms of our client contracts, we are required to keep such information strictly confidential. We use network security technologies, surveillance equipment and other methods to protect sensitive and confidential client data. We also require our employees and subcontractors to enter into confidentiality agreements to limit access to and distribution of our clients' sensitive and confidential information as well as our own trade secrets. We can give no assurance that the steps taken by us in this regard will be adequate to protect our clients' confidential information. If our clients' proprietary rights are misappropriated by our employees or our subcontractors or their employees, in violation of any applicable confidentiality agreements or otherwise, our clients may consider us liable for those acts and seek damages and compensation from us. Any such acts could cause us to lose existing and future business and damage our reputation in the market. In addition, we currently do not have any insurance coverage for mismanagement or misappropriation of such information by our subcontractors or employees. Any litigation with respect to unauthorized disclosure of sensitive and confidential information might result in substantial costs and diversion of resources and management attention.

We may not be able to prevent others from unauthorized use of intellectual property of our clients, which could harm our business and competitive position.

We rely on software licenses from our clients with respect to certain projects. To protect proprietary information and other intellectual property of our clients, we require our employees, subcontractors, consultants, advisors and collaborators to enter into confidentiality agreements with us. These agreements may not provide effective protection for trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. Implementation of intellectual property-related laws in China has historically been lacking, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, protection of intellectual property rights and confidentiality in China may not be as effective as that in the United States or other developed countries. Policing unauthorized use of proprietary technology is difficult and expensive. The steps we have taken may be inadequate to prevent the misappropriation of proprietary technology of our clients. Reverse engineering, unauthorized copying or other misappropriation of proprietary technologies of our clients could enable third parties to benefit from our or our clients' technologies without paying us and our clients for doing so, and our clients may hold us liable for that act and seek damages and compensation from us, which could harm our business and competitive position.

We may not be able to prevent others from unauthorized use of our intellectual property, which could cause a loss of clients, reduce our revenues and harm our competitive position.

We rely on a combination of copyright, trademark, software registration, anti-unfair competition and trade secret laws, as well as confidentiality agreements and other methods to protect our intellectual property rights. To protect our trade secrets and other proprietary information, employees, clients, subcontractors, consultants, advisors and collaborators are required to enter into confidentiality agreements. These agreements might not provide effective protection for the trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. Implementation of intellectual property-related laws in China has historically been lacking, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as those in the United States or other developed countries, and infringement of intellectual property rights continues to pose a serious risk of doing business in China. Policing unauthorized use of proprietary technology is difficult and expensive. The steps we have taken may be inadequate to prevent the misappropriation of our proprietary technology. Reverse engineering, unauthorized copying, other misappropriation, or negligent or accidental leakage of our proprietary technologies could enable third parties to benefit from our technologies without obtaining our consent or paying us for doing so, which could harm our business and competitive position. Though we are not currently involved in any litigation with respect to intellectual property, we may need to enforce our intellectual property rights through litigation. Litigation relating to our intellectual property may not prove successful and might result in substantial costs and diversion of resources and management attention.

We may face intellectual property infringement claims that could be time-consuming and costly to defend. If we fail to defend ourselves against such claims, we may lose significant intellectual property rights and may be unable to continue providing our existing services.

Our success largely depends on our ability to use and develop our technology and services without infringing the intellectual property rights of third parties, including copyrights, trade secrets and trademarks. We may be subject to litigation involving claims of violation of other intellectual property rights of third parties. We typically indemnify clients who purchase our services and solutions against potential infringement of intellectual property rights underlying our services and solutions, which subjects us to the risk of indemnification claims. The holders of other intellectual property rights potentially relevant to our service offerings may make it difficult for us to acquire a license on commercially acceptable terms. Also, we may be unaware of intellectual property registrations or applications relating to our services that may give rise to potential infringement claims against us. There may also be technologies licensed to and relied on by us that are subject to infringement or other corresponding allegations or claims by third parties which may damage our ability to rely on such technologies. We are subject to additional risks as a result of our recent and proposed acquisitions and the hiring of new employees who may misappropriate intellectual property from their former employers. Parties making infringement claims may be able to obtain an injunction to prevent us from delivering our services or using technology involving the allegedly infringing intellectual property. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. A successful infringement claim against us, whether with or without merit, could, among others things, require us to pay substantial damages, develop non-infringing technology, or re-brand our name or enter into royalty or license agreements that may not be available on acceptable terms, if at all, and cease making, licensing or using products that have infringed a third party's intellectual property rights. Protracted litigation could also result in existing or potential clients deferring or limiting their purchase or use of our products until resolution of such litigation, or could require us to indemnify our clients against infringement claims in certain instances. Any intellectual property claim or litigation in this area, whether we ultimately win or lose, could damage our reputation and have a material adverse effect on our business, results of operations or financial condition.

We may need additional capital and any failure by us to raise additional capital on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our service offerings to respond to market demand or competitive challenges.

We believe that our current cash, cash flow from operations and the available lines of credit from financial institutions should be sufficient to meet our anticipated cash needs for at least the next 12 months. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financing covenants that would restrict our operations. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of technology services outsourcing companies;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations and financial condition;
- PRC government regulation of foreign investment in China;
- economic, political and other conditions in China; and
- PRC government policies relating to the borrowing and remittance outside China of foreign currency.

Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our product and service offerings to respond to market demand or competitive challenges.

Failure to adhere to regulations that govern our clients' businesses could result in breaches of contracts with our clients. Failure to adhere to the regulations that govern our business could result in our being unable to effectively perform our services.

Our clients' business operations are subject to certain rules and regulations in China or elsewhere. Our clients may contractually require that we perform our services in a manner that would enable them to comply with such rules and regulations. Failure to perform our services in such a manner could result in breaches of contract with our clients and, in some limited circumstances, civil fines and criminal penalties for us. In addition, we are required under various Chinese laws to obtain and maintain permits and licenses to conduct our business. If we do not maintain our licenses or other qualifications to provide our services, we may not be able to provide services to existing clients or be able to attract new clients and could lose revenues, which could have a material adverse effect on our business and results of operations.

We may incur losses resulting from business interruptions resulting from occurrence of natural disasters, health epidemics and other outbreaks or events.

Our operational facilities may be damaged in natural disasters such as earthquakes, floods, heavy rains, sand storms, tsunamis and cyclones, or other events such as fires. Such natural disasters or other events may lead to disruption of information systems and telephone service for sustained periods. Damage or destruction that interrupts our provision of outsourcing services could damage our relationships with our clients and may cause us to incur substantial additional expenses to repair or replace damaged equipment or facilities. We may also be liable to our clients for disruption in service resulting from such damage or destruction. Prolonged disruption of our services as a result of natural disasters or other events may also entitle our clients to terminate their contracts with us. We currently do not have insurance against business interruptions.

Fluctuation in the value of the Renminbi and other currencies may have a material adverse effect on the value of your investment.

Our financial statements are expressed in U.S. dollars. However, a majority of our revenues and expenses are denominated in Renminbi (RMB). Our exposure to foreign exchange risk primarily relates to the limited cash denominated in currencies other than the functional currencies of each entity and limited revenue contracts dominated in Singapore dollar, Hong Kong dollar and Australian dollar in certain PRC operating entities. We do not believe that we currently have any significant direct foreign exchange risk and have not hedged exposures denominated in foreign currencies or any other derivative financial instruments. However, the value of your investment in our common shares will be affected by the foreign exchange rate between U.S. dollars and RMB because the primary value of our business is effectively denominated in RMB, while the common shares will be traded in U.S. dollars. The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. The People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rate and achieve certain exchange rate targets, and through such intervention kept the U.S. dollar-RMB exchange rate relatively stable.

As we may rely on dividends paid to us by our PRC subsidiaries, any significant revaluation of the RMB may have a material adverse effect on our revenues and financial condition, and the value of any dividends payable on our common shares in foreign currency terms. For example, to the extent that we need to convert U.S. dollars we maintain into RMB, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us. Furthermore, appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign exchange losses in the future. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert into foreign currencies.

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

Changes in the value of the RMB against the U.S. dollar, euro and other foreign currencies are affected by, among other things, changes in China's political and economic conditions. Any significant revaluation of the RMB may have a material adverse effect on our revenues and financial condition, and the value of, and any dividends payable on our shares in U.S. dollar terms. Conversely, if we decide to convert our RMB into U.S. dollar for the purpose of paying dividends on our common stock or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us. Since July 2005, the RMB is no longer pegged to the U.S. dollar, although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in future, PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

Legislation in certain countries in which we have clients may restrict companies in those countries from outsourcing work to us.

Offshore outsourcing is a politically sensitive issue in the United States. For example, many organizations and public figures in the United States have publicly expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in their home countries. A number of U.S. states have passed legislation that restricts state government entities from outsourcing certain work to offshore service providers. Other U.S. federal and state legislation has been proposed that, if enacted, would provide tax disincentives for offshore outsourcing or require disclosure of jobs outsourced abroad. Similar legislation could be enacted in other countries in which we have clients. Any expansion of existing laws or the enactment of new legislation restricting or discouraging offshore outsourcing by companies in the United States, or other countries in which we have clients could adversely impact our business operations and financial results. In addition, from time to time there has been publicity about negative experiences associated with offshore outsourcing, such as theft and misappropriation of sensitive client data. As a result, current or prospective clients may elect to perform such services themselves or may be discouraged from transferring these services from onshore to offshore providers. Any slowdown or reversal of existing industry trends towards offshore outsourcing in response to political pressure or negative publicity would harm our ability to compete effectively with competitors that operate out of onshore facilities and adversely affect our business and financial results.

Disruptions in telecommunications or significant failure in our IT systems could harm our service model, which could result in a reduction of our revenue.

A significant element of our business strategy is to continue to leverage and expand our sales and delivery centers strategically located in China. We believe that the use of a strategically located network of sales and delivery centers will provide us with cost advantages, the ability to attract highly skilled personnel in various regions of the country and the world, and the ability to service clients on a regional and global basis. Part of our service model is to maintain active voice and data communications, financial control, accounting, customer service and other data processing systems between our main offices in Shanghai, our clients' offices, and our other deliveries centers and support facilities. Our business activities may be materially disrupted in the event of a partial or complete failure of any of these IT or communication systems, which could be caused by, among other things, software malfunction, computer virus attacks, conversion errors due to system upgrading, damage from fire, earthquake, power loss, telecommunications failure, unauthorized entry or other events beyond our control. Loss of all or part of the systems for a period of time could hinder our performance or our ability to complete client projects on time which, in turn, could lead to a reduction of our revenue or otherwise have a material adverse effect on our business and business reputation. We may also be liable to our clients for breach of contract for interruptions in service.

Our computer networks may be vulnerable to security risks that could disrupt our services and adversely affect our results of operations.

Our computer networks may be vulnerable to unauthorized access, computer hackers, computer viruses and other security problems caused by unauthorized access to, or improper use of, systems by third parties or employees. A hacker who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in our operations. Although we intend to continue to implement security measures, computer attacks or disruptions may jeopardize the security of information stored in and transmitted through our computer systems. Actual or perceived concerns that our systems may be vulnerable to such attacks or disruptions may deter our clients from using our solutions or services. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches. Data networks are also vulnerable to attacks, unauthorized access and disruptions. For example, in a number of public networks, hackers have bypassed firewalls and misappropriated confidential information. It is possible that, despite existing safeguards, an employee could misappropriate our clients' proprietary information or data, exposing us to a risk of loss or litigation and possible liability. Losses or liabilities that are incurred as a result of any of the foregoing could have a material adverse effect on our business.

If we fail to implement and maintain an effective system of internal controls, we may be unable to accurately report our results of operations, meet our reporting obligations on a timely basis, or prevent fraud, and investor confidence and the market price of our shares may be materially and adversely affected.

We are required to evaluate the effectiveness of disclosure controls and procedures and internal control over financial reporting. As defined in standards established by the United States Public Company Accounting Oversight Board, or the PCAOB, a “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. In the course of auditing our consolidated financial statements as of June 30, 2019 and for the year ended June 30, 2019, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting as well as other control deficiencies. The material weakness identified is the Company’s lack of sufficient financial accounting and reporting personnel with requisite knowledge and experience in the application of the United States generally accepted accounting principles (“U.S. GAAP”) and Securities and Exchange Commission (“SEC”) rules and lack of sufficient controls and procedures that are commensurate with U.S. GAAP and SEC reporting requirements. We are in the process of implementing a number of measures to address the material weaknesses and deficiencies that have been identified. For details about remediation, refer to “Item 15. Controls and Procedures.” Our failure to correct the material weakness and control deficiencies or our failure to discover and address any other material weakness or control deficiencies could result in inaccuracies in our financial statements and could also impair our ability to comply with applicable financial reporting requirements. As a result, our business, financial condition, results of operations and prospects, as well as the market price of our common shares, may be materially and adversely affected. Moreover, ineffective internal control over financial reporting significantly hinders our ability to prevent fraud.

We are a public company in the United States subject to the Sarbanes Oxley Act of 2002. Section 404 of the Sarbanes Oxley Act, or Section 404, requires us to include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F. Our management concluded that our internal control over financial reporting is not effective. In addition, once we cease to be an “emerging growth company” as such term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Even if our management concludes that our internal control over financial reporting is effective in the future, our independent registered public accounting firm, after conducting its own independent testing, may issue an adverse opinion if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we may identify other weaknesses and deficiencies in our internal control over financial reporting. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Moreover, our internal control over financial reporting may not prevent or detect all errors and fraud. A control system, no matter how well it is designed and operated, cannot provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the market price of our common shares. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

Our insurance coverage may be inadequate to protect us against losses.

Although we maintain professional liability insurance and property insurance coverage for certain of our facilities and equipment, we do not have any loss of data or business interruption insurance coverage for our operations. If any claims for damage are brought against us, or if we experience any business disruption, litigation or natural disaster, we might incur substantial costs and diversion of resources.

Risks Relating to Our Corporate Structure

We will likely not pay dividends in the foreseeable future.

Dividend policy is subject to the discretion of our Board of Directors and will depend on, among other things, our earnings, financial condition, capital requirements and other factors. There is no assurance that our Board of Directors will declare dividends even if we are profitable. The payment of dividends by entities organized in China is subject to limitations as described herein. Under Cayman Islands law, we may only pay dividends from profits of the Company, or credits standing in the Company’s share premium account, and we must be solvent before and after the dividend payment in the sense that we will be able to satisfy our liabilities as they become due in the ordinary course of business; and the realizable value of assets of our Company will not be less than the sum of our total liabilities, other than deferred taxes as shown on our books of account, and our capital. Pursuant to the Chinese enterprise income tax law, dividends payable by a foreign investment entity to its foreign investors are subject to a withholding tax of 10%. Similarly, dividends payable by a foreign investment entity to its Hong Kong investor who owns 25% or more of the equity of the foreign investment entity is subject to a withholding tax of 5%. The payment of dividends by entities organized in China is subject to limitations, procedures and formalities. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. The transfer to this reserve must be made before distribution of any dividend to shareholders.

Our business may be materially and adversely affected if any of our Chinese subsidiaries declare bankruptcy or become subject to a dissolution or liquidation proceeding.

The Enterprise Bankruptcy Law of China provides that an enterprise may be liquidated if the enterprise fails to settle its debts as and when they fall due and if the enterprise's assets are, or are demonstrably, insufficient to clear such debts. Our Chinese subsidiaries hold certain assets that are important to our business operations. If any of our Chinese subsidiaries undergoes a voluntary or involuntary liquidation proceeding, unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

Our WOFE is required to allocate a portion of its after-tax profits to the statutory reserve fund, and as determined by its board of directors, to the staff welfare and bonus funds, which may not be distributed to equity owners.

Pursuant to Company Law of P.R. China (2018 Revision), Wholly Foreign-Owned Enterprise ("WOFE") Law of the P.R. China (2016 Revision) and Implementing Rules for the Law of the People's Republic of China on Wholly Foreign Owned Enterprises (2014 Revision), our WOFE entity is required to allocate a portion of its after-tax profits, to the statutory reserve fund, and in its discretion, to the staff welfare and bonus funds. No lower than 10% of an enterprise's after tax-profits should be allocated to the statutory reserve fund. When the statutory reserve fund account balance is equal to or greater than 50% of the WOFE's registered capital, no further allocation to the statutory reserve fund account is required. WOFE determines, in its own discretion, the amount contributed to the staff welfare and bonus funds. These reserves represent appropriations of retained earnings determined according to Chinese law.

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

On August 8, 2006, six Chinese regulatory agencies, including the Ministry of Commerce of the People's Republic of China ("MOFCOM"), jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the "M&A Rule"). The M&A Rule contains provisions that require that an offshore special purpose vehicle ("SPV") formed for listing purposes and controlled directly or indirectly by Chinese companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange. On September 21, 2006, the CSRC published procedures specifying documents and materials required to be submitted to it by an SPV seeking CSRC approval of overseas listings. However, the application of the M&A Rule remains unclear with no consensus currently existing among leading Chinese law firms regarding the scope and applicability of the CSRC approval requirement. The CSRC has not issued any such definitive rule or interpretation, and we have not chosen to voluntarily request approval under the M&A Rule. We may face regulatory actions or other sanctions from the CSRC or other Chinese regulatory authorities. These authorities may impose fines and penalties upon our operations in China, limit our operating privileges in China, delay or restrict the repatriation of the IPO proceeds into China, or take other actions that could have a material adverse effect upon our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our common shares.

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

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

If we fail to maintain continuing compliance with the PRC state regulatory rules, policies and procedures applicable to our industry, we may risk losing certain preferential tax and other treatments which may adversely affect the viability of our current corporate structure, corporate governance and business operations.

According to the Guidelines on Foreign Investment issued by the State Council in 2002 and the Catalog on Foreign Invested Industries (2007 Revision) issued by the National Development and Reform Commission and the Ministry of Commerce, IT services fall into the category of industries in which foreign investment is encouraged. The State Council has promulgated several notices since 2000 to launch favorable policies for IT services, such as preferential tax treatments and credit support. Under rules and regulations promulgated by various Chinese government agencies, enterprises that have met specified criteria and are recognized as software enterprises by the relevant government authorities in China are entitled to preferential treatment, including financing support, preferential tax rates, export incentives, discretion and flexibility in determining employees' welfare benefits and remuneration. Software enterprise qualifications are subject to annual examination. Enterprises that fail to meet the annual examination standards will lose the favorable enterprise income tax treatment. Enterprises exporting software or producing software products that are registered with the relevant government authorities are also entitled to preferential treatment including governmental financial support, preferential import, export policies and preferential tax rates. Companies in China engaging in systems integration are required to obtain qualification certificates from the Ministry of Industry and Information Technology. Companies planning to set up computer information systems may only retain systems integration companies with appropriate qualification certificates. Currently the Company does not engage in information system integration business, therefore the Company is not required to have such qualification certificates. The qualification certificate is subject to review every two years and is renewable every four years. In 2003, the Ministry of Industry and Information Technology promulgated the Amended Appraisal Condition for Qualification Grade of Systems Integration of Computer Information to elaborate the conditions for appraising each of the four qualification grades of systems integration companies. Companies applying for qualification are graded depending on the scale of the work they undertake. The grades range from Grade 1 (highest) to Grade 4 (lowest) in the scale of the work the respective companies can undertake. Companies with Grade 3 qualification can independently undertake projects at the medium-scale and small-scale enterprise level and undertake projects at the large-scale enterprise level in cooperation with other entities. If and to the extent we fail to maintain compliance with such applicable rules and regulations, our operations and financial results may be adversely affected.

Risks Related to Doing Business in China

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

The majority of our business operations are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy since the late 1970s, the PRC government continues to exercise significant control over China's economic growth through direct allocation of resources, monetary and tax policies, and a host of other government policies such as those that encourage or restrict investment in certain industries by foreign investors, control the exchange between the Renminbi and foreign currencies, and regulate the growth of the general or specific market. While the Chinese economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among various sectors of the economy. Furthermore, the current global economic crisis is adversely affecting economies throughout the world. As the PRC economy has become increasingly linked with the global economy, China is affected in various respects by downturns and recessions of major economies around the world. The various economic and policy measures enacted by the PRC government to forestall economic downturns or bolster China's economic growth could materially affect our business. Any adverse change in the economic conditions in China, in policies of the PRC government or in laws and regulations in China could have a material adverse effect on the overall economic growth of China and market demand for our outsourcing services. Such developments could adversely affect our businesses, lead to reduction in demand for our services and adversely affect our competitive position.

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

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has been building a comprehensive system of laws and regulations governing economic matters in general. The overall effect has been to significantly enhance the protections afforded to various forms of foreign investments in China. We conduct our business primarily through our subsidiaries established in China. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. In addition, some regulatory requirements issued by certain PRC government authorities may not be consistently applied by other government authorities (including local government authorities), thus making strict compliance with all regulatory requirements impractical, or in some circumstances impossible. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners, clients and suppliers. In addition, such uncertainties, including any inability to enforce our contracts, together with any development or interpretation of PRC law that is adverse to us, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other more developed countries. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

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

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

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

Pursuant to the Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises, which became effective in February 2015, or Circular 7, Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, which became effective in December 2017, or Circular 37, Law of the People's Republic of China on Enterprise Income Tax on December 29, 2018 and Regulations on the Implementation of Enterprise Income Tax Law on January 1, 2008, where a non-resident enterprise indirectly transfers properties such as equity in Chinese resident enterprises without any justifiable business purposes with the aim of avoiding to pay enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in Chinese resident enterprise in accordance with Article 47 of the Enterprise Income Tax Law. The PRC tax authority will examine the true nature of such transfer, and the gains derived from such transfer may be subject to PRC withholding tax at the rate of up to 10%. In addition, the PRC resident enterprise is supposed to provide necessary assistance to support the enforcement of the Laws and Circulars. The PRC tax authorities may make claims against our PRC subsidiary as being indirectly liable for unpaid taxes, if any, arising from Indirect Transfers by shareholders who did not obtain their shares in the public offering of our shares.

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

The PRC State Administration of Foreign Exchange, or SAFE, issued a public notice in 2014 known as Circular 37 that requires PRC residents, including both legal persons and natural persons, to register with an appropriate local SAFE branch before establishing or controlling any company outside of China, referred to as an offshore special purpose company, for the purpose of acquiring any assets of or equity interest in PRC companies and raising funds from overseas. When a PRC resident contributes the assets or equity interests it holds in a PRC company into the offshore special purpose company, or engages in overseas financing after contributing such assets or equity interests into the offshore special purpose company, such PRC resident must modify its SAFE registration in light of its interest in the offshore special purpose company and any change thereof. Moreover, failure to comply with the above SAFE registration requirements could result in liabilities under PRC laws for evasion of foreign exchange restrictions.

We are committed to complying with the Circular 37 requirements and to ensuring that our shareholders who are PRC citizens or residents comply with them. We believe that all of our current PRC citizen or resident shareholders and beneficial owners have completed their required registrations with SAFE. However, we may not at all times be fully aware or informed of the identities of all our beneficial owners who are PRC citizens or residents, and we may not always be able to compel our beneficial owners to comply with the Circular 37 requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC citizens or residents will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by, Circular 37 or other related regulations. Failure by any such shareholders or beneficial owners to comply with Circular 37 could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

In addition, the PRC National Development and Reform Commission promulgated a rule in 2017 requiring its approval for overseas investment projects made by PRC entities. However, there exist extensive uncertainties as to the interpretation of this rule with respect to its application to a PRC individual's overseas investment and, in practice, we are not aware of any precedents that a PRC individual's overseas investment has been either approved by the National Development and Reform Commission or challenged by the National Development and Reform Commission based on the absence of its approval. Our current beneficial owners who are PRC individuals did not apply for the approval of the National Development and Reform Commission for their investment in us. We cannot predict how and to what extent this will affect our business operations or future strategy.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We may make loans to our PRC subsidiaries and controlled PRC affiliate, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries or controlled PRC affiliate are subject to PRC regulations and approvals. For example, loans by us to our PRC subsidiaries in China, each of which is a foreign-invested enterprise, to finance their activities cannot exceed statutory limits and must be registered with SAFE or its local counterpart.

We may also decide to finance our PRC subsidiaries through capital contributions. These capital contributions must be approved by the Ministry of Commerce in China or its local counterpart. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or controlled PRC affiliate or capital contributions by us to our subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or approvals, our ability to capitalize our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

In 2015, SAFE promulgated Circular 19, a notice regulating the conversion by a foreign-invested enterprise of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Circular 19 requires that Renminbi converted from the foreign currency-denominated capital of a foreign-invested enterprise shall be truthfully used for the enterprise's own operational purposes within the scope of business and only the foreign-invested enterprise whose main business is investment (including a foreign-invested investment company, foreign-invested venture capital enterprise or foreign-invested equity investment enterprise) is allowed to directly settle its foreign exchange capital or transfer the RMB funds under its Account for Foreign Exchange Settlement Pending Payment to the account of an invested enterprise according to the actual amount of investment, provided that the relevant domestic investment project is real and compliant.

We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or controlled PRC affiliate or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

Governmental control of currency conversion may limit our ability to use our revenues effectively and the ability of our PRC subsidiaries to obtain financing.

The PRC government imposes control on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive a majority of our revenues in Renminbi, which currently is not a freely convertible currency. Restrictions on currency conversion imposed by the PRC government may limit our ability to use revenues generated in Renminbi to fund our expenditures denominated in foreign currencies or our business activities outside China. Under China's existing foreign exchange regulations, Renminbi may be freely converted into foreign currency for payments relating to current account transactions, which include among other things dividend payments and payments for the import of goods and services, by complying with certain procedural requirements. Our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from SAFE, by complying with certain procedural requirements. Our PRC subsidiaries may also retain foreign currency in their respective current account bank accounts for use in payment of international current account transactions. However, we cannot assure you that the PRC government will not take measures in the future to restrict access to foreign currencies for current account transactions. Conversion of Renminbi into foreign currencies, and of foreign currencies into Renminbi, for payments relating to capital account transactions, which principally includes investments and loans, generally requires the approval of SAFE and other relevant PRC governmental authorities. Restrictions on the convertibility of the Renminbi for capital account transactions could affect the ability of our PRC subsidiaries to make investments overseas or to obtain foreign currency through debt or equity financing, including by means of loans or capital contributions from us. We cannot assure you that the registration process will not delay or prevent our conversion of Renminbi for use outside of China.

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

The Enterprise Income Tax Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered PRC tax resident enterprises and will generally be subject to the uniform 25% PRC enterprise income tax rate on their global income. In addition, a tax circular issued by the State Administration of Taxation on April 22, 2009 regarding the standards used to classify certain Chinese-invested enterprises established outside of China as resident enterprises clarified that dividends and other income paid by such resident enterprises will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognized by non-PRC enterprise shareholders. This recent circular also subjects such resident enterprises to various reporting requirements with the PRC tax authorities. Under the implementation rules to the Enterprise Income Tax Law, a de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and other assets of an enterprise. In addition, the tax circular mentioned above details that certain Chinese-invested enterprises will be classified as resident enterprises if the following are located or resident in China: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders’ meetings; and half or more of the senior management or directors having voting rights.

Currently, there are no detailed rules or precedents governing the procedures and specific criteria for determining de facto management bodies which are applicable to our company or our overseas subsidiary. If our company or any of our overseas subsidiaries is considered a PRC tax resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, our company or our overseas subsidiary will be subject to the uniform 25% enterprise income tax rate as to our global income as well as PRC enterprise income tax reporting obligations. Second, although under the Enterprise Income Tax Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as tax-exempted income, we cannot assure you that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, dividends payable by us to our investors and gain on the sale of our shares may become subject to PRC withholding tax. It is possible that future guidance issued with respect to the new resident enterprise classification could result in a situation in which a withholding tax of 10% for our non-PRC enterprise investors or a potential withholding tax of 20% for individual investors is imposed on dividends we pay to them and with respect to gains derived by such investors from transferring our shares. In addition to the uncertainty in how the new resident enterprise classification could apply, it is also possible that the rules may change in the future, possibly with retroactive effect. If we are required under the Enterprise Income Tax law to withhold PRC income tax on our dividends payable to our foreign shareholders, or if you are required to pay PRC income tax on the transfer of our shares under the circumstances mentioned above, the value of your investment in our shares or ADSs may be materially and adversely affected. It is unclear whether, if we are considered a PRC resident enterprise, holders of our shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in August 2006 and amended in 2009, requires an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals to obtain the approval of the China Securities Regulatory Commission, or the CSRC, prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. In September 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by a special purpose vehicle seeking CSRC approval of its overseas listings. The application of the M&A Rules remains unclear. These M&A Rules and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex, including requirements in some instances that the MOC be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that the MOC shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the MOC that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise "national defense and security" concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns are subject to strict review by the MOC, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOC or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

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

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

Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

The PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of certain taxable assets, including, in particular, equity interests in a PRC resident enterprise, by a non-resident enterprise by promulgating and implementing SAT Circular 59, Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises, which became effective in February 2015, or Circular 7 and Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, which became effective in December 2017, or Circular 37.

Under the Enterprise Income Tax Law, Regulations on the Implementation of Enterprise Income Tax Law, Circular 7 and Circular 37, where a non-resident enterprise indirectly transfers properties such as equity in Chinese resident enterprises without any justifiable business purposes with the aim of avoiding to pay enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in Chinese resident enterprise in accordance with Article 47 of the Enterprise Income Tax Law. The non-resident enterprise, being the transferor, may be subject to PRC enterprise income tax, if the indirect transfer is considered to be an abusive use of company structure without reasonable commercial purposes. As a result, gains derived from such indirect transfer may be subject to PRC tax at a rate of up to 10%.

In February 2015, the SAT issued Circular 7 to replace the rules relating to indirect transfers in Circular 698. Circular 7 has introduced a new tax regime that is significantly different from that under Circular 698. Circular 7 extends its tax jurisdiction to not only indirect transfers set forth under Circular 698 but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. In addition, Circular 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Circular 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an “indirect transfer” by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise.

We face uncertainties on the reporting and consequences on future private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises. The PRC tax authorities may pursue such non-resident enterprises with respect to a filing or the transferees with respect to withholding obligation, and request our PRC subsidiaries to assist in the filing. As a result, we and non-resident enterprises in such transactions may become at risk of being subject to filing obligations or being taxed, under Circular 59 and Circular 7, and may be required to expend valuable resources to comply with Circular 59 and Circular 7 or to establish that we and our non-resident enterprises should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under SAT Circular 59, and Circular 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. Although we currently have no plans to pursue any acquisitions in China or elsewhere in the world, we may pursue acquisitions in the future that may involve complex corporate structures. If we are considered a non-resident enterprise under the PRC Enterprise Income Tax Law and if the PRC tax authorities make adjustments to the taxable income of the transactions under SAT Circular 59 or Circular 7, our income tax costs associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

We may rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

As a holding company, we conduct substantially all of our business through our consolidated subsidiaries incorporated in China. We may rely on dividends paid by these PRC subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends. In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

Our current employment practices may be restricted under the PRC Labor Contract Law and our labor costs may increase as a result.

The PRC Labor Contract Law and its implementing rules impose requirements concerning contracts entered into between an employer and its employees and establishes time limits for probationary periods and for how long an employee can be placed in a fixed-term labor contract. Because the Labor Contract Law and its implementing rules have not been in effect very long and because there is lack of clarity with respect to their implementation and potential penalties and fines, it is uncertain how it will impact our current employment policies and practices. We cannot assure you that our employment policies and practices do not, or will not, violate the Labor Contract Law or its implementing rules and that we will not be subject to related penalties, fines or legal fees. If we are subject to large penalties or fees related to the Labor Contract Law or its implementing rules, our business, financial condition and results of operations may be materially and adversely affected. In addition, according to the Labor Contract Law and its implementing rules, if we intend to enforce the non-compete provision with an employee in a labor contract or non-competition agreement, we have to compensate the employee on a monthly basis during the term of the restriction period after the termination or ending of the labor contract, which may cause extra expenses to us. Furthermore, the Labor Contract Law and its implementation rules require certain terminations to be based upon seniority rather than merit, which significantly affects the cost of reducing workforce for employers. In the event we decide to significantly change or decrease our workforce in the PRC, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, thus our results of operations could be adversely affected.

The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board, and as such, you are deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit report included in this annual report, as auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board, or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Since our auditors are located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in an issue that has vexed U.S. regulators in recent years. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem.

Inspections of other firms that the PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

If additional remedial measures are imposed on the Big Four PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

Starting in 2011 the Chinese affiliates of the "big four" accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese firms access to their audit work papers and related documents. The firms were, however, advised and directed that under Chinese law, they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the China Securities Regulatory Commission, or the CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the "big four" accounting firms (including our independent registered public accounting firm). A first instance trial of these proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms, including a temporary suspension of their right to practice before the SEC. Implementation of the latter penalty was postponed pending review by the SEC Commissioners. On February 6, 2015, each of the four China-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The firms' ability to continue to serve all their respective clients is not affected by the settlement. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the China Securities Regulatory Commission. If the firms do not follow these procedures, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings. The settlement did not require the firms to admit to any violation of law and preserves the firms' legal defenses in the event the administrative proceeding is restarted.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in their financial statements being determined to be not in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, U.S.-listed companies, and the market price of our common stock may be adversely affected.

If our independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined to be not in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our shares from the NASDAQ Global Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our shares in the United States.

We may not meet continued listing standards on the NASDAQ Global Market.

If our shares are delisted from the NASDAQ Global Market at some later date, our shareholders could find it difficult to sell our shares. In addition, if our common shares are delisted from the NASDAQ Global Market at some later date, we may apply to have our common shares quoted in the OTC Markets, otherwise they would automatically begin Quotation or in the "pink sheets" maintained by the National Quotation Bureau, Inc. The OTC Markets and the "pink sheets" are less efficient markets than the NASDAQ Global Market. In addition, if our common shares are delisted at some later date, our common shares may be subject to the "penny stock" regulations. These rules impose additional sales practice requirements on broker-dealers that sell low-priced securities to persons other than established customers and institutional accredited investors and require the delivery of a disclosure schedule explaining the nature and risks of the penny stock market. As a result, the ability or willingness of broker-dealers to sell or make a market in our common shares might decline. If our common shares are delisted from the NASDAQ Global Market at some later date or become subject to the penny stock regulations, it is likely that the price of our shares would decline and that our shareholders would find it difficult to sell their shares.

The market price for our shares may be volatile.

The trading prices of our common shares are likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of internet or other companies based in China that have listed their securities in the United States in recent years. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial decline in their trading prices. The trading performances of other Chinese companies' securities after their offerings may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our common shares, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, which may have a material adverse effect on the market price of our shares. In addition to the above factors, the price and trading volume of our common shares may be highly volatile due to multiple factors, including the following:

- regulatory developments affecting us, our users, or our industry;
- regulatory uncertainties with regard to our variable interest entity arrangements;
- announcements of studies and reports relating to our service offerings or those of our competitors;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures or capital commitments;
- additions to or departures of our senior management;
- detrimental negative publicity about us, our management or our industry;
- fluctuations of exchange rates between the RMB and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our outstanding common shares; and
- sales or perceived potential sales of additional common shares.

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

We are a foreign private issuer and, as a result, we are not subject to the same requirements as U.S. domestic issuers. Under the Exchange Act, we will be subject to reporting obligations that, to some extent, are more lenient and less frequent than those of U.S. domestic reporting companies. For example, we will not be required to issue quarterly reports or proxy statements. We will not be required to disclose detailed individual executive compensation information. Furthermore, our directors and executive officers will not be required to report equity holdings under Section 16 of the Exchange Act and will not be subject to the insider short-swing profit disclosure and recovery regime. As a foreign private issuer, we will also be exempt from the requirements of Regulation FD (Fair Disclosure) which, generally, are meant to ensure that select groups of investors are not privy to specific information about an issuer before other investors. However, we will still be subject to the anti-fraud and anti-manipulation rules of the SEC, such as Rule 10b-5 under the Exchange Act. Since many of the disclosure obligations imposed on us as a foreign private issuer differ from those imposed on U.S. domestic reporting companies, you should not expect to receive the same information about us and at the same time as the information provided by U.S. domestic reporting companies.

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than under U.S. law, you may have less protection for your shareholder rights than you would under U.S. law.

Our corporate affairs are governed by our Memorandum and Articles of Association, the Cayman Islands Companies Law (Revised) (the “Companies Law”) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a different body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as shareholders of a U.S. public company.

Judgments obtained against us by our shareholders may not be enforceable.

We are a Cayman Islands company and all of our assets are located outside of the United States. Our current operations are based in China. In addition, our current directors and executive officers are nationals and residents of countries other than the United States. Substantially all of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the United States federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

We are a foreign private issuer and, as a result, will not be subject to U.S. proxy rules and will be subject to more lenient and less frequent Exchange Act reporting obligations than a U.S. issuer.

We report under the Securities Exchange Act as a foreign private issuer. Because we qualify as a foreign private issuer under the Exchange Act, we will be exempt from certain provisions of the Exchange Act that are applicable to U.S. public companies, including:

- the sections of the Exchange Act that regulate the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act that require insiders to file public reports of their stock ownership and trading activities and impose liability on insiders who profit from trades made in a short period of time; and
- the rules under the Exchange Act that require the filing of quarterly reports on Form 10-Q containing unaudited financial and other specified information and current reports on Form 8-K upon the occurrence of specified significant events.

In addition, foreign private issuers are not required to file their annual report on Form 20-F until 120 days after the end of each fiscal year, while U.S. domestic issuers that are not large accelerated filers or accelerated filers are required to file their annual report on Form 10-K within 90 days after the end of each fiscal year. Foreign private issuers are also exempt from Regulation FD, aimed at preventing issuers from making selective disclosures of material information. There is no formal requirement under the Company's memorandum and articles of association mandating that we hold an annual meeting of our shareholders. However, notwithstanding the foregoing, we intend to hold such meetings on our annual meeting to, among other things, elect our directors. We plan to hold our next annual shareholders meeting on the first quarter of 2020. As a result, you may not have the same protections afforded to stockholders of companies that are not foreign private issuers.

We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses.

The determination of our status as a foreign private issuer is made annually on the last business day of our most recently completed second fiscal quarter and, accordingly, the next determination will be made with respect to us on or after December 31, 2019. We would lose our foreign private issuer status if (1) a majority of our outstanding voting securities are directly or indirectly held of record by U.S. residents, and (2) a majority of our shareholders or a majority of our directors or management are U.S. citizens or residents, a majority of our assets are located in the United States, or our business is administered principally in the United States. If we were to lose our foreign private issuer status, the regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly higher. We may also be required to modify certain of our policies to comply with corporate governance practices associated with U.S. domestic issuers, which would involve additional costs.

We will incur increased costs as a publicly-traded company.

As a company with publicly-traded securities, we will incur additional legal, accounting and other expenses not presently incurred. In addition, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as well as rules promulgated by the SEC and the national securities exchange on which we list, requires us to adopt corporate governance practices applicable to U.S. public companies. These rules and regulations will increase our legal and financial compliance costs.

We may be exposed to risks relating to evaluations of controls required by Sarbanes-Oxley Act of 2002.

Pursuant to Sarbanes-Oxley Act of 2002, our management is required to report on, and our independent registered public accounting firm may in the future be required to attest to, the effectiveness of our internal control over financial reporting. Our internal accounting controls may not meet all standards applicable to companies with publicly traded securities. If we fail to implement any required improvements to our disclosure controls and procedures, we may be obligated to report control deficiencies and, if required, our independent registered public accounting firm may not be able to certify the effectiveness of our internal controls over financial reporting. In either case, we could become subject to regulatory sanction or investigation. Further, these outcomes could damage investor confidence in the accuracy and reliability of our financial statements.

As an “emerging growth company” under the Jumpstart Our Business Startups Act, or JOBS Act, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements.

As an “emerging growth company” under the JOBS Act, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements. We are an emerging growth company until the earliest of:

- the last day of the fiscal year during which we have total annual gross revenues of \$1.07 billion or more;
- the last day of the fiscal year following the fifth anniversary of our IPO;
- the date on which we have, during the previous 3-year period, issued more than \$1 billion in non-convertible debt; or
- the date on which we are deemed a “large accelerated issuer” as defined under the federal securities laws.

For so long as we remain an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not “emerging growth companies” including, but not limited to, not being required to comply with the auditor attestation requirements of section 404 of the Sarbanes-Oxley Act for up to five fiscal years after the date of the IPO. We cannot predict if investors will find our common shares less attractive because we may rely on these exemptions. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares and the trading price of our common shares may be more volatile. In addition, our costs of operating as a public company may increase when we cease to be an emerging growth company.

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. holders of our common shares.

Based on the historical market price of our common shares since the IPO, and the composition of our income, assets and operations, we do not expect to be treated as a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes for the current taxable year or in the foreseeable future. However, the application of the PFIC rules is subject to uncertainty in several respects, and we cannot assure you the U.S. Internal Revenue Service will not take a contrary position. Furthermore, this is a factual determination that must be made annually after the close of each taxable year. If we are a PFIC for any taxable year during which a U.S. holder holds our common shares, certain adverse U.S. federal income tax consequences could apply to such U.S. Holder.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our common shares and trading volume could decline.

The trading market for our common shares will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who cover us downgrade our common shares or publish inaccurate or unfavorable research about our business, the market price for our common shares would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for our common shares to decline.

Our corporate structure, together with applicable law, may impede shareholders from asserting claims against us and our principals.

All of our operations and records, and all of our senior management are located in the PRC. Shareholders of companies such as ours have limited ability to assert and collect on claims in litigation against such companies and their principals. In addition, China has very restrictive secrecy laws that prohibit the delivery of many of the financial records maintained by a business located in China to third parties absent Chinese government approval. Since discovery is an important part of proving a claim in litigation, and since most if not all of our records are in China, Chinese secrecy laws could frustrate efforts to prove a claim against us or our management. In addition, in order to commence litigation in the United States against an individual such as an officer or director, that individual must be served. Generally, service requires the cooperation of the country in which a defendant resides. China has a history of failing to cooperate in efforts to affect such service upon Chinese citizens in China.

If we become directly subject to the recent scrutiny involving U.S.-listed Chinese companies, we may have to expend significant resources to investigate and or defend the matter, which could harm our business operations, stock price and reputation and could result in a complete loss of your investment in us.

Recently, U.S. public companies that have substantially all of their operations in China have been the subject of intense scrutiny by investors, financial commentators and regulatory agencies. Much of the scrutiny has centered around financial and accounting irregularities and mistakes, a lack of effective internal controls over financial reporting and, in many cases, allegations of fraud. As a result of the scrutiny, the publicly traded stock of many U.S. listed China-based companies that have been the subject of such scrutiny has sharply decreased in value. Many of these companies are now subject to shareholder lawsuits and or SEC enforcement actions that are conducting internal and or external investigations into the allegations. If we become the subject of any such scrutiny, whether any allegations are true or not, we may have to expend significant resources to investigate such allegations and or defend our company. Such investigations or allegations will be costly and time-consuming and distract our management from our business plan and could result in our reputation being harmed and our stock price could decline as a result of such allegations, regardless of the truthfulness of the allegations.

Changes in general economic conditions, geopolitical conditions, U.S.-China trade relations and other factors beyond the Company's control may adversely impact our business and operating results.

The Company's operations and performance depend significantly on global and regional economic and geopolitical conditions. Changes in U.S.-China trade policies, and a number of other economic and geopolitical factors both in China and abroad could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows. Such factors may include, without limitation:

- instability in political or economic conditions, including but not limited to inflation, recession, foreign currency exchange restrictions and devaluations, restrictive governmental controls on the movement and repatriation of earnings and capital, and actual or anticipated military or political conflicts, particularly in emerging markets;
- intergovernmental conflicts or actions, including but not limited to armed conflict, trade wars, retaliatory tariffs, and acts of terrorism or war; and
- interruptions to the Company's business with its largest customers, distributors and suppliers resulting from but not limited to, strikes, financial instabilities, computer malfunctions or cybersecurity incidents, inventory excesses, natural disasters or other disasters such as fires, floods, earthquakes, hurricanes or explosions.

Any of the foregoing or similar factors could result in reduced demand for our services which, in turn, could have material adverse effects on our business and results of operations.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We are a global information technology ("IT"), consulting and solutions service provider focused on delivering services to global institutions in banking, insurance and financial sectors, both in China and globally. For more than ten years, we have served as an IT solutions provider to a growing network of clients in the global financial industry, including large financial institutions in the US, Europe, Australia and Hong Kong and their PRC-based IT centers.

Since our inception, we have aimed to build one of the largest sales and service delivery platforms for IT services and solutions headquartered in China. The nature of our services is such that we provide a majority of services to our banking and credit card clients in order to build new or modify existing clients' own proprietary systems. We maintain ten delivery and/or research & development ("R&D") centers to serve different customers in various geographic locations. Seven centers are located in mainland China including cities of Shanghai, Beijing, Dalian, Tianjin, Chengdu, Guangzhou and Shenzhen. The remaining three centers are located in Hong Kong, Singapore and Australia. By combining onsite (when we send our team to our client) or onshore (when we send our team to client's overseas location) support and consulting with scalable and high-efficiency offsite (when we send our team to a location other than client's location) or offshore (when we send our team to a location that is other than a client's location overseas) services and processing, we are able to meet client demands in a cost-effective manner while retaining significant operational flexibility. By serving both Chinese and global clients on a common platform, we are able to leverage the shared resources, management, industry expertise and technological know-how to attract new business and remain cost competitive.

Corporate History and Background

CLPS Incorporation was incorporated under the laws of the Cayman Islands on May 11, 2017. Our share capital is US\$10,000, which is divided into 100,000,000 common shares authorized, or US\$0.0001 par value per share. On December 7, 2017, the Board of Directors approved a nominal issuance of the following shares to the existing shareholders: 5,000,000 shares to Qinrui Ltd., 5,000,000 shares to Qinhui Ltd., 430,823 shares to Qinlian Ltd., 430,804 shares to Qinmeng Ltd. and 428,373 shares to Qinyao Ltd. All of the five shareholders are incorporated in the British Virgin Islands.

The Company owns all of the outstanding capital stock of both Qinheng (incorporated on June 9, 2017) and Qiner (incorporated on April 21, 2017). Qinheng owns all of the outstanding capital stock of CLPS QC (WOFE) (incorporated on August 4, 2017). CLPS QC (WOFE) and Qiner respectively own 55.30% and 44.70% of the outstanding capital stock of CLPS Shanghai, the Company's operating subsidiary based in Pudong New District, Shanghai, China, originally incorporated on August 30, 2005.

On August 30, 2005, CLPS Shanghai was established by Jingsu Pan and Xiaochun Deng as a PRC limited liability company. Jingsu Pan and Xiaochun Deng each actually paid RMB250,000 (approximately US\$30,881) in cash for 50% of equity interest in CLPS Shanghai, and the total registered capital of CLPS Shanghai was RMB500,000 (approximately US\$61,763).

On December 23, 2005, CLPS Shanghai increased its registered capital to RMB1,000,000 (approximately US\$123,671). Jingsu Pan and Xiaochun Deng respectively made full payment for their subscribed capital to RMB500,000 (approximately US\$61,835) on December 21, 2005.

On March 29, 2010, Yan Pan entered into a *Share Purchase Agreement* with Jingsu Pan to purchase all of Jingsu Pan's shares in CLPS Shanghai. Pursuant to the *Share Purchase Agreement*, Yan Pan paid RMB500,000 (approximately US\$61,835) for 50% shares of CLPS Shanghai. After this share transfer, Yan Pan and Xiaochun Deng respectively held 50% shares of CLPS Shanghai.

On October 19, 2010, Raymond Ming Hui Lin entered into a *Share Purchase Agreement* with Xiaochun Deng to purchase all of Xiaochun Deng's shares in CLPS Shanghai. Pursuant to the *Share Purchase Agreement*, Raymond Ming Hui Lin paid RMB500,000 (approximately US\$61,835) for 50% shares of CLPS Shanghai. After this share transfer, Yan Pan and Raymond Ming Hui Lin respectively held 50% shares of CLPS Shanghai. Since Raymond Ming Hui Lin is a Hong Kong resident, CLPS Shanghai changed its form in a Sino-foreign equity joint venture.

On October 31, 2012, CLPS Shanghai increased its registered capital to RMB5,000,000 (approximately US\$799,987). Yan Pan and Raymond Ming Hui Lin each increased their subscribed capital to RMB2,500,000 (approximately US\$399,993). Yan Pan actually paid RMB1,000,000 (approximately US\$159,997) and Raymond Ming Hui Lin actually paid RMB1,008,120 (approximately US\$161,296) for the capital contributions on October 18, 2012.

On October 30, 2013, Xiao Feng Yang entered into a *Share Purchase Agreement* with Yan Pan to purchase all of Yan Pan's shares in CLPS Shanghai. Pursuant to the *Share Purchase Agreement*, Xiao Feng Yang paid RMB2,500,000 (approximately US\$399,993) for 50% shares of CLPS Shanghai. After this share transfer, Xiao Feng Yang and Raymond Ming Hui Lin respectively held 50% shares of CLPS Shanghai.

On June 24, 2014, CLPS Shanghai increased its registered capital to RMB30,000,000 (approximately US\$4,759,004). Xiao Feng Yang and Raymond Ming Hui Lin respectively increased their subscribed capital to RMB15,000,000 (approximately US\$2,379,502).

On April 23, 2015, Raymond Ming Hui Lin paid RMB6,163,560 (approximately US\$994,523) for the capital contribution that he has made.

On May 27, 2015, Raymond Ming Hui Lin paid RMB3,391,883 (approximately US\$546,980) for the capital contribution that he has made.

On May 29, 2015, Xiao Feng Yang paid RMB4,400,000 (approximately US\$709,906), plus with his cash dividends for the capital contribution that he has made.

On August 5, 2015, Raymond Ming Hui Lin paid RMB3,894,060 (approximately US\$627,103) for the capital contribution that he has made.

On August 27, 2015, Raymond Ming Hui Lin paid RMB42,377 (approximately US\$6,615) for the capital contribution that he has made.

On July 21, 2015, Xiao Feng Yang paid RMB1,100,000 (approximately US\$177,147) for the capital contribution that he has made.

On August 14, 2015, Xiao Feng Yang paid RMB8,000,000 (approximately US\$1,251,799), plus with his cash dividends for the capital contribution that he has made.

On December 15, 2015, CLPS Shanghai changed its form into a PRC joint stock limited company. The share capital of CLPS Shanghai was RMB30,000,000, which was divided into 30,000,000 shares of RMB1.00 per share.

On May 26, 2016, three limited partnerships subscribed new shares issued by CLPS Shanghai and became shareholders of CLPS Shanghai. These three limited partnerships were: Shanghai Qinyao Investment Partnership (LLP), Shanghai Qinzhi Investment Partnership (LLP) and Shanghai Qinshang Software Technology Counsel Partnership (LLP). After the above-mentioned subscription, the shareholding structure of CLPS Shanghai was as follows:

INVESTORS	PLACE OF REGISTRATION	SHARES
Xiao Feng Yang	PRC	15,000,000
Raymond Ming Hui Lin	Hong Kong	15,000,000
Shanghai Qinyao Investment Partnership (LLP)	PRC	1,700,000
Shanghai Qinzhi Investment Partnership (LLP)	PRC	1,270,000
Shanghai Qinshang Software Technology Counsel Partnership (LLP)	PRC	900,000
Total:		<u>33,870,000</u>

On June 5, 2017, Qinheng was established by CLPS Incorporation in Hong Kong. The total amount of share capital of Qinheng to be subscribed by CLPS Incorporation was HKD 10,000.00 and CLPS Incorporation held 100% of equity interest in Qinheng.

In July 2017, three of the abovementioned limited partnerships transferred all of their equity interest in CLPS Shanghai to their individual partners according to the proportion of each partner's capital contribution. A total of 47 individuals became shareholders of CLPS Shanghai.

In August 2017, Qiner entered into three *Share Purchase Agreements* with three non-Chinese individual shareholders of CLPS Shanghai, The three non-Chinese individual shareholders are Raymond Ming Hui Lin (Hong Kong), Limpiaida Zosimo (Philippines) and Lin James De-Mou (Taiwan). Including, Raymond Ming Hui Lin sold 15,000,000 shares, Limpiaida Zosimo sold 71,229 shares and Lin James De-Mou sold 67,510 shares. The aforementioned share transfer was part of reorganization of the group.

On August 4, 2017, CLPS QC (WFOE) received a business license from China (Shanghai) Pilot Free Trade Zone Administration for Industry and Commerce and was established by Qinheng as a PRC limited liability company. Qinheng subscribed USD 200,000 and held 100% of equity interest in CLPS QC (WFOE).

On October 31, 2017, CLPS Incorporation entered into a *SOLD NOTE* with Raymond Lin Ming Hui to purchase all of Raymond Lin Ming Hui's shares in Qiner. After this transfer, CLPS Incorporation held 100% shares of Qiner. Qiner has become CLPS Incorporation's wholly-owned subsidiary.

In October 2017, all Chinese individual shareholders of CLPS Shanghai completed the procedures for foreign exchange registration of overseas investments in accordance with the *Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles* (SAFE 2014 No. 37). After these registrations, CLPS QC (WFOE) entered into 46 *Share Purchase Agreements* with all 46 Chinese individual shareholders of which the 46 Chinese individual shareholders in total held 18,731,261 shares of CLPS Shanghai. The aforementioned share transfer was part of a reorganization of the group.

On November 2, 2017, the transfer between the 46 Chinese individual shareholders and CLPS QC (WFOE) has completed the record-filing of changes of Foreign-invested Company and got the record receipt.

The shareholding structure of CLPS Shanghai is as follows:

INVESTORS	PLACE OF REGISTRATION	SHARES
Shanghai Qincheng Information Technology Co., Ltd.	PRC	18,731,261
Qiner Co., Limited	Hong Kong	15,138,739
Total:		33,870,000

As of the date of this Annual Report, CLPS Shanghai has three wholly-owned subsidiaries: CLPS RC, CLPS Huanyu, and CLPS Hangzhou Co., Ltd., Besides the three wholly-owned subsidiaries, CLPS Shanghai participated in the following investments:

- **CLPS Beijing** — CLPS Shanghai holds 49% of equity interest in CLPS Beijing, a PRC limited liability company
- **Judge China** — CLPS Shanghai holds a 60% of equity interest in Judge China, a PRC limited liability company
- **CLPS Hong Kong** — CLPS Shanghai holds 80% of equity interest in CLPS Hong Kong, a Hong Kong company
- **CLPS Shenzhen** — CLPS Shanghai holds 70% of equity interest in CLPS Shenzhen, a PRC limited liability company.
- **CLPS Guangzhou** — CLPS Shanghai holds 51% of equity interest in CLPS Guangzhou, a PRC limited liability company.
- **CLPS Dalian** — CLPS Shanghai holds 49% of equity interest in CLPS Dalian, a PRC limited liability company.
- **CLPS Lihong** — CLPS Shanghai holds 36.84% of equity interest in CLPS Lihong, a PRC limited liability company.

IT consulting services primarily includes application development services for banks and institutions in the financial industry and which are billed for on a time-and-expense basis. Customized IT solutions services primarily includes customized solution development and maintenance service for general enterprises and which are billed for on a fixed-price basis. The following entities provide either consulting or solution services or both, depending on where our clients are based. The entities are currently servicing one of the services might expand to both services if our clients' needs arise:

- CLPS Dalian provides both consulting and solution services. CLPS Dalian services clients in China's north east region, including Dalian.

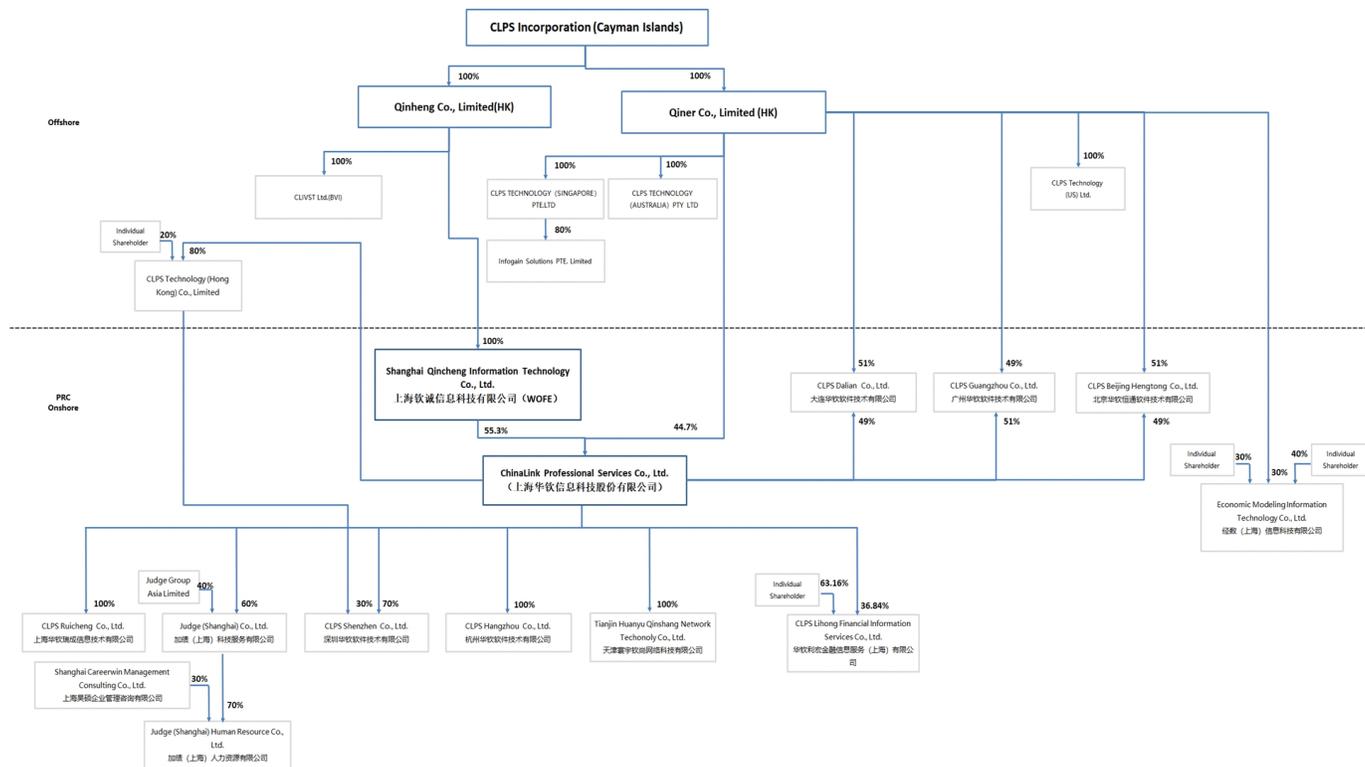
- CLPS RC provides consulting services. CLPS RC focuses on small and medium domestic financial institutions.
- CLPS Beijing provides both consulting and solution services. CLPS Beijing services clients in China's central east region, including Beijing and Tianjin.
- CLPS AU currently only provides consulting services. CLPS AU services clients in Australia.
- CLPS SG currently only provides consulting services. CLPS SG services clients in South East Asia region, including Singapore.
- Infogain currently only provides consulting services. Infogain services clients in South East Asia region, including Singapore.
- Judge China is a joint venture with The Judge Group in the US. Judge China continues to service The Judge Group's clients in China. Judge China focuses on expanding its client bases with collaboration efforts with The Judge Group.
- CLPS Hong Kong currently only provides consulting services. CLPS Hong Kong services clients in East Asia region, including Hong Kong.
- CLPS Shenzhen currently only provides consulting services. CLPS Shenzhen services clients in Shenzhen.
- CLPS Guangzhou currently only provides consulting services. CLPS Guangzhou services clients in Guangzhou.
- CLPS Shanghai holds 100% of equity interest in Huanyu which was incorporated in September 2017 for the purposes of providing Internet technology services and products to clients. CLPS Shanghai, CLPS Dalian, CLPS RC, CLPS Beijing and Judge China all contribute material amounts of the Company's total revenues.

Corporate Information

Our principal executive office is located at the 2nd Floor, Building 18, Shanghai Pudong Software Park, 498 Guoshoujing Road, Pudong, Shanghai 201203, PRC. Our telephone number is (+86)21-31268010. Our website is as follows www.clpsglobal.com. The information on our website is not part of this Annual Report.

The following diagram illustrates our corporate structure:

CLPS Corporate Structure



The Initial Public Offering

On May 24, 2018, the Company completed its initial public offering of 2,000,000 common shares, \$0.0001 par value per share. The common shares were sold at an offering price of \$5.25 per share, generating gross proceeds of approximately \$10.5 million, and net proceeds of approximately \$9.5 million. The registration statement relating to this IPO also covered the underwriters' common stock purchase warrants and the common shares issuable upon the exercise thereof in the total amount of 83,162 common shares. Each five-year warrant entitles the warrant holder to purchase the Company's shares at the exercise price of \$6.30 per share and is not be transferable for a period of 180 days from May 23, 2018. On June 8, 2018, the Company closed on the exercise in full of the over-allotment option to purchase an additional 300,000 common shares of the Company by The Benchmark Company, LLC, the representative of the underwriters in connection with and the book running manager of the Company's IPO, at the IPO price of \$5.25 per share. As a result, the Company raised gross proceeds of approximately \$1.58 million, in addition to the IPO gross proceeds of approximately \$10.5 million, or combined gross IPO proceeds of approximately \$12.08 million, before underwriting discounts and commissions and offering expenses. Our common shares began trading on the NASDAQ Capital Market on May 24, 2018 under the ticker symbol "CLPS".

We have earmarked and have been using the proceeds of the initial public offering as follows: approximately \$4.41 million for global expansion, i.e., to expand our existing locations to develop new clients by hiring more qualified personnel, system integration and marketing effort; approximately \$3.31 million for working capital and general corporate purposes; approximately \$2.21 million for R&D; and approximately \$1.09 million for talent development.

B. Business Overview

Overview

We are a global information technology ("IT"), consulting and solutions service provider focused on delivering services to global institutions in banking, insurance and financial sectors, both in China and globally. For more than ten years, we have served as an IT Solutions provider to a growing network of clients in the global financial industry, including large financial institutions from the US, Europe, Australia and Hong Kong, and their PRC-based IT centers. We have created and developed a particular market niche by providing turn-key financial solution. Since our inception, we have aimed to build one of the largest sales and service delivery platforms for IT services and solutions in China. We maintain ten delivery and/or research and development ("R&D") centers to serve different customers in various geographic locations. Seven centers are located in mainland China, including cities of Shanghai, Beijing, Dalian, Tianjin, Chengdu, Guangzhou and Shenzhen. The remaining three centers are located in Hong Kong, Singapore and Australia. By combining onsite or onshore support and consulting with scalable and high-efficiency offsite or offshore services and processing, we are able to meet client demands in a cost-effective manner while retaining significant operational flexibility. We believe that maintaining our Company as a proven, reliable partner to our financial industry clients both in China and globally positions us well to capture greater opportunities in the rapidly evolving global market for IT consulting and solutions.

Industry and Market Background

China's Banking Industry

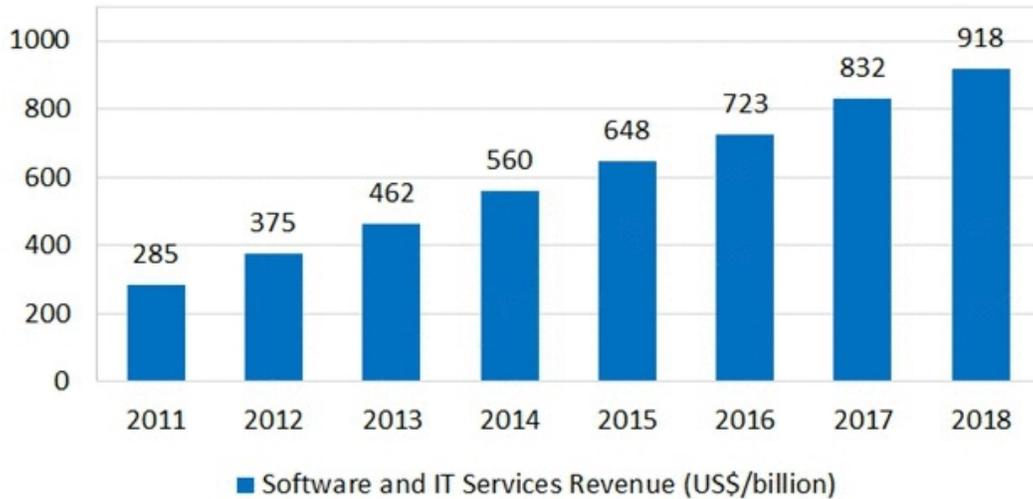
According to the 2018 annual report of China Banking Regulatory Commission (CBRC), China's banking financial institutions had total assets of RMB 268.2 trillion (USD 39.1 trillion) at the end of 2018, a year-on-year increase of RMB 15.8 trillion (USD 2.3 trillion), or 6.3%. Total liabilities equaled to RMB 246.6 trillion (USD 35.9 trillion), a year-on-year increase of RMB 13.7 trillion (USD 2.0 trillion), or 5.9%. The total assets of banking financial institutions were RMB 27.6 trillion (USD 4.0 trillion) in 2003. Over the past 10 years, total assets of China's banking financial institutions grew at a compound annual growth rate of nearly 20%. However, the banking industry is facing many challenges, such as the competition with private capital, the participation of technological enterprises, changes in the financial market, the tightening of regulatory policies, and more diversified deposit substitute products, among others. Following the 2006 repeal of geographical and customer restrictions on foreign banks, the CBRC continued the policies to open China's banking industry for entry by foreign competitors to promote healthy competition in the industry. By April 2019, 215 foreign banks in 54 countries and regions are now presents in China, with headquarters, branches, sub-branches and a complete service network with certain coverage and market depth, with more than 982 outlets.

Software and Information Technology Service Industry in China

According to the 2018 Economic Performance of the Software Industry report of Ministry of Industry and Information Technology (MIIT), China's software and information technology service industry continued to show a steady and significant operating trend. The income and profit have grown, innovation capability continued to improve, industrial structures were continually developed and optimized, and services and support have been significantly enhanced.

China's software and information technology services industry has developed and grown rapidly in recent years. The MIIT data shows that the industry's revenue reached RMB 6.3 trillion (USD 918 billion) in 2018, an increase of 14.2% compared to 2017, with the same growth rate. Industry profits grew steadily. In 2018, the industry achieved a total profit of RMB 808 billion (USD 117.7 billion), an increase of 9.7% over the previous year.

The Revenue of China's Software and IT Services Industry



Data Source: The Ministry of Industry and Information Technology, National Bureau of Statistics of China.

The development of China's software and IT service industry is generally characterized by:

- *Information technology services* —Stayed ahead and continued to evolve towards cloud computing. In 2018, the industry's revenue from information technology services reached RMB 3.5 trillion (USD 510 billion), an increase of 17.6% over the previous year. The growth rate was 3.4% higher than the industry's average, accounting for 55.1% of the industry's revenue. Among them, cloud computing-related operational services (including SaaS, PaaS, at IaaS, etc.) revenues reached RMB 1.0 trillion (USD 146 billion), an increase of 21.4% over the previous year.
- *Software products* —In 2018, the industry's revenue from software products reached RMB 1.94 trillion (USD 283 billion), an increase of 12.1% over the previous year, accounting for 30.7% of the industry's revenue. Among them, the revenues from information security and industrial software products are RMB 169.8 billion (USD 24.7 billion) and RMB 147.7 billion (USD 21.5 billion), an increase of 14.8% and 14.2% respectively. With the breakthrough of emerging technologies, the software industry is moving towards building a strong industrial foundation, advancing information system security control, and driving industrial intelligence.
- *Embedded system software* —A key driving force in using technology to digitally transform products and equipment into more user-friendly and with more value-added features. The annual revenue for embedded system software reached RMB 895.2 billion (USD 130.4 billion), an increase of 6.8% over the previous year, accounting for 14.2% of the industry's revenue.
- *Development on regional level* —The eastern region has developed steadily, and the software industry in the central and western regions increased. In 2018, revenue from software business completed in eastern regions reached RMB 5.0 trillion (USD 728 billion), with a growth rate of 14.2% year-on-year, accounting for 79.0% of the national software industry. Revenue from software business completed in central and western regions was RMB 316.3 billion (USD 46.1 billion) and RMB 718.9 billion (USD 104.7 billion), with a growth rate of 19.2% and 16.2%, accounting for 5.0% and 11.4 % of the national software industry, respectively, an increase of 0.2% from the previous year. Software business revenue in northeast China reached RMB 291.4 billion (USD 42.4 billion), accounting for 4.6% of the national software industry, a decrease of 0.4% year-on-year.

Financial institutions/banking IT solutions refer to the software or IT related services provided by professional IT service providers who use their own experience and technology to meet each bank’s individual needs in business development, strategic development and management efficiency. The market shares of China Banking IT Solution Industry from 2010 are shown as below:



Data Source: IDC data

According to IDC’s 2018 China Banking IT Solution Market Share report, the year-on-year growth rate of China’s banking IT solution market has increased with stable and healthy development. The operating environment of China’s banking industry has undergone extensive transformation. Banks are in different stages of architectural transformation and upgrade. Although the demand for software and information technology services remains strong, the demand of various banks depends on their IT solution needs.

* The demands for traditional IT solutions of state-owned and joint venture banks have decreased. These banks are more focused on utilizing emerging technologies. The IT spending has increased, aiming to transform traditional businesses to online and intelligent banking.

* The demands for traditional IT solutions predominantly come from the regional small and medium-sized banks. These banks focus on IT system construction and iteration. The top banks on this level have higher IT investment and stronger talent pools. In addition, these banks are actively exploring effective digital innovation methods to complete the transformation and upgrade framed by the technology management.

In 2018, the overall market size of China’s banking IT solution market reached RMB 41.99 billion (USD 6.1 billion), an increase of 23.6% over 2017. IDC predicts that the market will grow at a compound annual growth rate of 20.8% from 2019 to 2023. By 2023, the scale of China’s banking IT solution market will reach RMB 107.15 billion (USD 15.6 billion).

The overall market composition of China’s banking IT solutions has become more segmented. Traditional service providers adjusted their strategy from pursuing business expansion to focusing on R&D and business transformation. There is also an increase of players in the market. As the time of the Chinese internet industry’s rapid growth trajectory is fading away, the shortage of IT services market for financial institutions is getting more attention in the industry. With the high level of informatization and with growing awareness in the financial industry, banking has become a major battleground for all types of new financial service providers.

Our primary focus is in the following key operational areas:

Consulting Services

Credit Card Services

Most of the global credit card issuers maintain branches and supporting technical infrastructure in China. The development, testing, support and maintenance of these platforms require in-depth understanding and knowledge of business processes supported by IT. There is a significant demand for such IT consulting services among large-scale credit card platforms because many of such institutions experience shortage of qualified personnel and resources. We offer more than ten years of experience in IT consulting services across key credit card business areas, including credit card applications, account setup, authorization and activation, settlement, collection, promotion, point system, anti-fraud, statement, reporting and risk management. In the past years, we have successfully helped our China and global clients manage their credit card IT systems such as VisionPLUS. We offer expertise in customizing these credit card tools and platforms to suit a variety of business models. Our highly experienced team possesses the requisite expertise in providing the credit card services. The IT consulting professional teams provides the credit card services from Shanghai, Dalian and Hong Kong. We offer this experience and expertise in various currencies, across different geographical regions, including, but not limited to China, Singapore, UK, Philippines, Indonesia, and Latin America. In addition, we have developed a series of credit card solutions in order to meet the needs of our clients better.

Core Banking Services

We are one of China's largest core banking system services providers for global banks. Most global banks establish their IT development centers and gradually expand their business in China. Those banks require significant core banking IT services. We offer more than ten years of experience in providing leading global banks with the support and expertise needed to implement their core banking system, including business analysis, system design, development, testing services, system maintenance, and global operation support. We provide services across multiple functions including loans, deposit, general ledger, wealth management, debit card, anti-money-laundering, statement and reporting, and risk management. We also provide architecture consulting services for core banking systems and online and mobile banking. We successfully transformed the centralized core banking system for one of our US-based clients to a service-oriented architecture and integrated it into a global unified version, which successfully satisfied its business needs in various markets. In addition, we engage the cloud-native solution of core banking system with micro services architecture, which can serve both Chinese and global banks to meet the ever-changing demands of the market with high flexibility, high scalability, high reliability and multichannel connectivity.

For the years ended June 30, 2019 and 2018, revenues from our IT consulting services were approximately USD 61.8 million and USD 47.2 million, respectively. Revenues from our IT consulting services accounted for 95.1% and 96.4% of our total revenues in fiscal 2019 and 2018, respectively.

Solution Services

We are also an IT solution services provider in China and globally. We offer our clients over a decade of experience providing Chinese and global financial institutions with business and technological know-how including cloud computing and big data. We have accumulated an in-depth knowledge base that enables us to provide end-to-end customized solutions for our clients. The performance from our R&D center supports our ability to offer our clients creative solution design, especially in the areas of new information technology such as blockchain.

We offer software project development, maintenance and testing solution services, including COBOL, Java, .NET, Mobile and other technology applications. Specifically, we assist our clients in three aspects: (i) adopting and applying the most suitable technologies to ensure that software solutions are designed with information security and intellectual property rights protection in mind, (ii) building and managing a dedicated or leveraged software development, maintenance and testing quality, and efficiency testing, and (iii) providing onshore and offshore IT solution services to ensure turn-key delivery.

We have been working with a number of Chinese domestic banks to assist them in leveraging blockchain technology. Using this technology, a loyalty reward solution for the bank's customers was developed allowing domestic banks to track and trace transactions in real-time. It was recently implemented in Jiangnan Rural Commercial Bank. Also, the pilot phase of this solution was completed for Taicang Rural Commercial Bank.

We have also signed a blockchain-related contract with a leading university of finance and economics in Shanghai. The project utilizes blockchain technology in the university's online technical training platform for finance majors. In addition, this project also applies blockchain technology to the teaching management system for students. The management system offers an incentive mechanism that motivates students towards better study habits. This concept is similar to the loyalty reward programs offered in the financial industry. The project passed the testing conducted by the university on December 18, 2018.

The solution sets up a consortium chain platform using blockchain technology. When a bank or a merchant joins the consortium, it becomes a node of the consortium chain. This allows the bank's customers to manage and use their rewards among different banks and merchants, as well as share rewards among different customers. There are four layers in the overall architecture in this solution which includes the blockchain core layer, the blockchain SDK layer, the application system layer and the front-end layer. The consensus mechanism, P2P protocol, distributed ledger and storage mechanism of core layer are used to record transactions and prevent fraud. We will continue to develop our new IT solutions to meet the evolving needs of our Chinese and global financial institutional clientele drawing upon the forward-looking research of our R&D center.

For the years ended June 30, 2019 and 2018, revenues from our customized IT solution services were approximately USD3.0 million and USD1.6 million, respectively. Revenues from our customized IT solution services accounted for 4.7% and 3.3% of our total revenues in fiscal years 2019 and 2018, respectively.

Other Services

CLPS Virtual Banking Platform (CLB) — CLB is a unique and successful training platform for IT talents owned by CLPS. For more than ten years, we have been focusing on recruiting, training, developing and retaining human capital and talents. We have been developing and continuously upgrading our CLB to train specialized financial IT personnel in order to differentiate ourselves from general IT developers. CLB is one of the crucial components of our Talent Creation Program ("TCP"). It contains a full set of banking application modules covering areas such as core banking, credit cards, and wealth management, incorporated with cutting-edge technologies, such as JAVA, Android & iOS, HTML, blockchain, cloud computing and big data.

Our Strategies

We have developed and intend to implement the following strategies to expand and grow the revenue, the number of employees, and the number of service locations of our Company:

- *Grow revenue with existing and new clients* — We intend to pursue additional revenue opportunities from existing Chinese and global clients, which include many of the leading companies in our financial industry. We will focus on continuing to deliver high quality services and solutions and identifying additional opportunities with existing clients as they will continue to constitute a significant portion of our revenues and medium-term growth. We will also continue to target certain new Chinese and global clients, using our comprehensive service and solution offerings, combined with increasingly deep domain expertise in finance industry. Furthermore, we will continue to invest in a delivery platform that benefits both Chinese and global clients, capturing synergies between the China and global markets to benefit both groups of clients.

- *Continue to invest in research and development, deepen domain expertise and develop specific solutions for target industry verticals* — We will continue to enhance our domain knowledge in the financial industry and relevant business-specific processes. As we grow our industry and service area expertise, we intend to leverage the domain knowledge accumulated in our work with our Chinese and global clients to more effectively address their business-specific needs. In addition, we plan to continue investing in R&D, focusing on developing solutions that leverage our industry experience and R&D capabilities, to combine proprietary applications with our services to best address client needs.
- *Continue to invest in training and development of our world-class human capital base*— We place a high priority on attracting, training, developing and retaining our human capital base to be increasingly competitive. Spearheaded by the CLPS Academy, we will continue to build our professional talent pool through our Talent Creation Program (“TCP”) and Talent Development Program (“TDP”) to ensure the sustainable supply of financial IT talent resources. These programs are the result of our collaboration with Shanda University and utilization of a technical curriculum and professional certifications developed and maintained by our Company. We will continue to develop our scalable human capital platform by implementing resource planning and staffing systems and by attracting, training and developing high-quality professionals to form CLPS’s large talent pool in order to meet ever-changing clients’ needs. We will build on and leverage existing training programs and leverage the CLPS Academy, which we intend to expand to other key cities and other industries, such as the insurance sector, to tap deeper into CLPS’s talent pool. In addition to our dedicated training centers, we expect to open additional training centers overseas as we anticipate increasing demand for our services and solutions. We will continue to strengthen our collaboration with leading domestic universities to improve our on-campus recruiting results and help to better prepare graduates for work in our industry. Spearheaded by the CLPS Academy, the strength of our TCP/TDP program adds to our recognition in the industry by competitors and customers alike.
- *Drive efficiencies through ongoing improvements in operational excellence* — We strive to gain significant operating efficiencies by leveraging historical and ongoing investments in infrastructure, research and development and human capital. We operate our business on a single, integrated platform, with centralized functions which provide significant economies of scale across our business both domestically and globally, as well as cross service offerings. We also expect to continue investing in our own IT infrastructure and more advanced technologies, such as cloud computing, to allow us to enhance our scalability and continue to grow in a more cost-effective fashion. As part of expanding our scale, we intend to continue building up training centers tailored to our human capital needs to deploy human capital more efficiently, thereby improving overall resource utilization and productivity.
- *Capture new growth opportunities through strategic alliances and acquisitions* — We will continue to pursue selective alliances and acquisitions in order to enhance our industry-specific technology and service delivery capabilities by building on our track record of successfully acquiring and integrating targeted companies. We will continue to identify and assess opportunities to enhance our abilities to serve our clients. We will focus on enhancing our technology capabilities, deepening our penetration into key clients, expanding our portfolio of service offerings and expanding our operations geographically.

Our Competitive Strengths

We believe that the principal competitive factors in our markets are industry expertise, breadth and depth of service offerings, quality of the services offered, reputation and track record, marketing and selling skills, scalability of infrastructure and price.

We believe that there are several key strengths that differentiate us from our competitors and will continue to contribute to our growth and success.

Spearheaded by the CLPS Academy, we have established employee loyalty through the core engine of TCP and TDP programs both are integral parts of our supply chain which supports our service lines. Since 2008, our talent training services have offered training courses in five areas, including domain knowledge, technology skills, data security and management compliance training, soft skills for personnel; and English language skills including verbal and business correspondence for all level, especially for those who need to communicate with global customers directly on a daily basis. We believe that the depth and comprehensive nature of our talent training services are key features that distinguish us from our competitions. For more than ten years, the Company has been recruiting, training, developing and retaining human capital and talents. We have been developing and upgrading our CLPS Virtual Banking Platform (CLB) to train specialized financial IT professionals. CLB is one of the crucial components which enables our Talent Creation Program. It contains a full set of banking application modules covering areas such as core banking, credit cards and wealth management incorporated with cutting-edge technologies, such as JAVA, Android & iOS, HTML and big data. We select more than 200 students each year to participate in our training program. During their junior and senior years, the students learn to implement the concepts covered by our TCP platform along with their other computer science theory and coursework. Thereafter, the students join us as interns to continue improving their software development skills and will eventually become part of our development teams. As a result, graduates have an equivalent of nine months' worth of "on the job" training and experience. In 2017, we collaborated with Global Business College of Australia (GCBA) to set up a Financial Innovation Center (FIC) on its campus to offer our TCP training program to GCBA students with a specific interest in banking industry.

Our TDP program is a continuous internal training program for our skilled-professionals in order to serve our clients better. The TDP program increases our professionals' skillsets and business knowledge in their respective domain and technical fields. Our joint effort with Fudan University has established support to our senior staff to earn a financial-IT oriented master's degree in Software Engineering (MSE). Since 2005, through our TCP and TDP programs, we have trained and retained a large pool of specialized personnel skilled in serving financial-related industry clients.

As a result of our employee loyalty programs, we have established an ecosystem of loyal client relationships. Employee satisfaction and enhanced career development have resulted in better service to our clients. Client satisfaction in return motivates our employees to continue to provide excellent service to our clients. In addition to the above-mentioned benefits, our Company's strengths include the following:

- core competency particularly in banking and insurance industry;
- deep domain knowledge and solutions in financial industry verticals;
- strategic engagements with financial blue-chip clients most of whom have been with us since our inception;
- comprehensive service offerings including financial IT solutions & consulting as well as other services;
- experienced senior management team with proven track record of success.

Customers

Our clients include large corporations headquartered in China and globally which include, among others:

- *Banking or their China-based IT centers* — Citibank, Standard Chartered Bank (China) Ltd., ANZ Bank, and Bank of Communications.
- *Financial Industry* — AIA, China Life Insurance, First Data, Haitong Securities, and Orient Securities.
- *Technology Customers* — eBay, CRIF Information Technology, Experian, AGFA Healthcare and Neusoft.

By serving both Chinese and global clients on a common platform, we are able to leverage the shared resources, management, industry expertise and technology know-how to attract new business and remain cost competitive.

Sales and Marketing

We have invested in building a broad sales force and marketing team. As of June 30, 2019, our business development teams consisted of 31 full-time sales and marketing personnel, including 23 sales managers, each of whom is responsible for a designated sales region or client account. We plan to enhance our sales efforts by recruiting more sales personnel both domestically and overseas.

Competition

The market for IT services is highly competitive and we expect competition to intensify. We believe that the principal competitive factors in our markets are industry expertise, breadth and depth of service offerings, quality of the services offered, reputation and track record, marketing skills and price. Domestically, we face competition from the following major competitors: Shenzhen Forms Syntron Information Co., Ltd., Sunline Tech, Amarsoft and CSII. These competitors are all domestic listed companies and possess a considerable market share in IT services industry. Shenzhen Forms Syntron Information Co., Ltd. is committed to provide professional IT service outsourcing and consulting for large domestic commercial banks. Sunline Tech, Amarsoft and CSII have the similar business model who are engaged in providing IT solutions and services mainly for domestic banks and other financial institutions. While compared with above competitors, as an IT solution and consulting services provider, we've been specializing in industry demands analysis and focusing on delivering services to global institutions in banking, insurance and financial sectors, both in China and globally. As one of the earliest companies engaging in Banking IT services in China, we have accumulated rich industrial experience and successful cases during more than 10 years of business development and our market share is gradually increased. With the interest marketization and rise of Internet Finance, banking industry market grows more competitive. Since Core Banking Business is occupying a key position in the overall banking IT services market, we will enhance our core market competence by taking advantage of our current technology; internationally, our competitors include Wipro, TCS Consultancy, and Infosys Limited. To date, we do not typically compete directly with the larger global consulting and outsourcing firms, such as Accenture, Capgemini, Hewlett-Packard and IBM, who are typically engaged in conjunction with large global projects. However, we may compete with these firms if they seek smaller engagements, particularly in conjunction with a strategy to enter the domestic Chinese market. In addition, the trend towards offshore outsourcing, international expansion by foreign and domestic competitors and continuing technological innovation will result in new and different competitors entering our markets. We believe that our delivery capabilities are competitive with companies such as these, and that our domestic China market experience and know-how provides us with a competitive advantage in serving our clients.

Research and Development

R&D is an integral part of our continued growth. In order to serve our Chinese and global clients' needs better, we focus on exploring and researching new and advanced technologies and how to best integrate them into our existing and new solutions.

Currently, we are working on applying new and advanced technologies and tools to enhance our project delivery capability and efficiency. For instance, we applied the DevOps methodology and tools in our project delivery process and platform. This methodology has greatly enhanced the development, operational efficiency and project quality. We focus on blockchain, big data and cloud native applications. We have developed a loyalty reward solution based on a blockchain platform and implemented this solution with several China-based banks. With micro services architecture, we engage the cloud-native solution of core banking system, and have developed the first pilot business module to be tested on the client side. By utilizing big data technology, we research, develop and apply new features to existing credit scoring and anti-fraud solutions. We have invested a significant amount of capital in technology research and solution development. As a result, we have expanded our technological capabilities, improved efficiency of project delivery, and enhanced our solution offerings by improving existing solutions and inventing new solutions, which drive new revenue opportunities and improve our core competencies.

We recently upgraded our credit card system product, and it is currently in its final phase of testing. Through the joint effort of CLPS's Research Institute and Credit Card Service teams, the essential parts of the system will be migrated to the cloud platform. After the upgrade, the new product platform will leverage the advantages of cloud computing. Combined with the micro-service application, it paves the way to achieve dynamic horizontal and vertical expansions, resulting in improved performance, reliability, utilization of resources, and significantly reduced infrastructure costs. It also improves the display interface, gated launch and other features that enhance the user experience. In addition, the new product platform adopts the Open-API, or Application Program Interface, concept to provide ample APIs to facilitate the connection between channels, merchants and enterprises. The upgrade also includes an integrated monitoring platform that covers comprehensive monitoring and an early warning signal of basic settings and business transactions which allow clients to quickly locate and solve problems.

In December 2018, we ran a successful internal pilot test of Robotic Process Automation (RPA), aiming to automate the in-house human resources department's business processes, which cover more than 2,000 employees. Instead of manual work, the RPA mimics human activity that streamlines the internal management system and improve efficiency.

Employees

We believe resource management and planning is critically important to supporting our growth, and we are committed to effectively recruiting, training, developing and retaining our human capital. Our total number of employees has grown from 1,655 employees in fiscal 2018 to 2,085 employees as of June 30, 2019. Approximately 70% of our personnel are dedicated to serving our foreign financial institution clients. Such personnel maintain up to date financial domain knowledge, technical development and testing skills in Java, .Net, C, C++, testing tools, android or IOS app, blockchain, big data, cloud computing and mainframe COBOL. None of our employees are represented by a labor union or collective bargaining agreements. We consider our employee relations to be good. We believe that attracting and retaining highly experienced associates and sales and marketing personnel is a key to our success. In addition, we believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations.

Intellectual Property Rights

The PRC has domestic laws for the protection of rights in copyrights, trademarks and trade secrets. The PRC is also a signatory to all of the world's major intellectual property conventions, including:

- Convention establishing the World Intellectual Property Organization (June 3, 1980);
- Paris Convention for the Protection of Industrial Property (March 19, 1985);
- Patent Cooperation Treaty (January 1, 1994); and
- Agreement on Trade-Related Aspects of Intellectual Property Rights (November 11, 2001).

The PRC Trademark Law, adopted in 1982 and revised in 2013, with its implementation rules adopted in 2014, protects registered trademarks. The Trademark Office of the State Administration of Industry and Commerce of the PRC, handles trademark registrations and grants trademark registrations for a term of ten years.

Our intellectual property rights are important to our business. We rely on a combination of trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property. We also rely on and protect unpatented proprietary expertise, recipes and formulations, continuing innovation and other trade secrets to develop and maintain our competitive position. We enter into confidentiality agreements with most of our employees and consultants, and control access to and distribution of our documentation and other licensed information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, or to develop similar technology independently. Since the Chinese legal system in general, and the intellectual property regime in particular, is relatively weak, it is often difficult to enforce intellectual property rights in China. Policing unauthorized use of our technology is difficult and the steps we take may not prevent misappropriation or infringement of our proprietary technology. In addition, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others, which could result in substantial costs and diversion of our resources and could have a material adverse effect on our business, results of operations and financial condition. We require our employees to enter into non-disclosure agreements to limit access to and distribution of our proprietary and confidential information. These agreements generally provide that any confidential or proprietary information developed by us or on our behalf must be kept confidential. These agreements also provide that any confidential or proprietary information disclosed to third parties in the course of our business must be kept confidential by such third parties. In the event of trademark infringement, the State Administration for Industry and Commerce has the authority to fine the infringer and to confiscate or destroy the infringing products.

Our primary trademark portfolio consists of nine trademarks, four of which are registered and five of which are pending review. Our trademarks are valuable assets that reinforce the brand and our consumers' favorable perception of our products. The current registrations of these trademarks are effective for varying periods of time and may be renewed periodically, provided that we, as the registered owner, comply with all applicable renewal requirements including, where necessary, the continued use of the trademarks in connection with similar goods. In addition to trademark protection, we own 3 URL designations and domain names, including clps.com.cn, clpsglobal.com, and clpsgroup.com.cn.

We have registered for the following trademarks:

Mark	Country of Registration	Application Number	Class/Description	Current Owner	Status
	China	19288958	Class 9: Recorded computer programs (programs); Recorded computer operating programs Computer peripherals; Computer software (recorded); Connector (data processing equipment); Monitor program (computer program); Electronic publications (downloadable); Computer program (downloadable software); Downloadable computer application software; Computer hardware	ChinaLink Professional Services Co., Ltd.	Registered
	China	19289112	Class 38: Information transmission; Computer terminal communication; Computer-aided information and image transmission; Information transmission equipment rental; Provide telecommunications link services to connect with the global computer network; Telecommunications routing and junction services; Provide access service for global computer network users; Provide database access service; Digital file transfer Teleconference call service	ChinaLink Professional Services Co., Ltd.	Registered
	China	19289503	Class 9: Recorded computer programs (programs); Recorded computer operating programs; Computer peripherals; Computer software (recorded); Connector (data processing equipment); Monitor program (computer program); Electronic publications (downloadable); Computer program (downloadable software); Downloadable computer application software; Computer hardware	ChinaLink Professional Services Co., Ltd.	Registered
	China	19289341	Class 42: Technical research; Research or develop new products for others; Computer programming; Computer software design; Computer hardware design and development consulting; Computer software rental; Computer software maintenance; Computer system analysis; Computer software installation; Computer software consulting	ChinaLink Professional Services Co., Ltd.	Registered

We have applied to register the following trademarks:

Mark	Country of Registration	Application Number	Class/Description	Current Owner	Status
	China	19289066	Class 35: Advertising; Advertising agency Advertising space rental; Online advertising on the computer network; Advertisement layout design; Business management assistance; Business inquiry; Business information agency; Business management and organization consulting; Business management consulting	ChinaLink Professional Services Co., Ltd.	Pending
	China	19289214	Class 41: Teaching; Education; Training; Practical training (demonstration); Employment guidance (education or training consultants); Arrange and organize academic seminars; Arrange and organize meetings; Arrange and organize general meeting; Arrange and organize symposium; Arrange and organize training classes	ChinaLink Professional Services Co., Ltd.	Pending
	China	19289175	Class 42: Technical research; Research or develop new products for others; Computer programming; Computer software design; Computer hardware design and development consulting; Computer software rental; Computer software maintenance; Computer system analysis; Computer software installation; Computer software consulting	ChinaLink Professional Services Co., Ltd.	Pending
	China	19289492	Class 38: Information transmission; Computer terminal communication; Computer-aided information and image transmission; Information transmission equipment rental; Provide telecommunications link services to connect with the global computer network; Telecommunications routing and junction services; Provide access service for global computer network users; Provide database access service; Digital file transfer; Teleconference call service	ChinaLink Professional Services Co., Ltd.	Pending
	China	19289420	Class 41: Teaching; Education; Training; Practical training (demonstration); Employment guidance (education or training consultants); Arrange and organize academic seminars; Arrange and organize meetings; Arrange and organize general meeting; Arrange and organize symposium; Arrange and organize training classes	ChinaLink Professional Services Co., Ltd.	Pending

The following is a list of the Company's copyrights:

Software Name	Country of Registration	Registration Number	Current Owner	Approval Date	Status
CLPS HR Management Platform Software V1.0	China	2009SR015975	ChinaLink Professional Services Co., Ltd.	29 th April 2009	Registered
CLPS Food and Beverage Report Analysis and Management Platform Software V1.0	China	2009SR060110	ChinaLink Professional Services Co., Ltd.	28 th December 2009	Registered
CLPS Apparel Industry POS Management Platform Software V1.0	China	2009SR060102	ChinaLink Professional Services Co., Ltd.	28 th December 2009	Registered
CLPS Express Information Interactive Platform Software V1.0	China	2009SR060112	ChinaLink Professional Services Co., Ltd.	28 th December 2009	Registered
CLPS Chain Store Information Interactive Platform Software V1.0	China	2009SR060108	ChinaLink Professional Services Co., Ltd.	28 th December 2009	Registered
CLPS Project Analysis and Management Platform Software V1.0	China	2009SR060169	ChinaLink Professional Services Co., Ltd.	28 th December 2009	Registered
CLPS Payroll Accounting System Platform Software V1.0	China	2010SR043564	ChinaLink Professional Services Co., Ltd.	25 th August 2010	Registered
CLPS Fast Moving Consumer Goods Frontline Staff Management Platform Software V1.0	China	2010SR043561	ChinaLink Professional Services Co., Ltd.	25 th August 2010	Registered
CLPS Staff Management Platform Software V1.0	China	2010SR043562	ChinaLink Professional Services Co., Ltd.	25 th August 2010	Registered
CLPS Coal Mining Enterprise Information System Management Platform Software V1.0	China	2010SR045449	ChinaLink Professional Services Co., Ltd.	1 st September 2010	Registered
CLPS Campus Expense Card Web Service System Platform Software V1.0	China	2010SR045441	ChinaLink Professional Services Co., Ltd.	1 st September 2010	Registered
CLPS Campus Expense Card Bathroom Management Service Software V1.0	China	2010SR045444	ChinaLink Professional Services Co., Ltd.	1 st September 2010	Registered
CLPS Machinery Industry ERP Management Platform Software V1.0	China	2010SR045802	ChinaLink Professional Services Co., Ltd.	2 nd September 2010	Registered
CLPS Assignment and Task Management Platform Software (short name: Assignment and Task Management System) V1.0	China	2011SR076863	ChinaLink Professional Services Co., Ltd.	25 th October 2011	Registered
CLPS Marketing Assistant System Platform Software V1.0	China	2012SR096727	ChinaLink Professional Services Co., Ltd.	15 th October 2012	Registered
CLPS Outsourcing Service Staff Management System Platform Software V1.0	China	2012SR096666	ChinaLink Professional Services Co., Ltd.	15 th October 2012	Registered
CLPS Outsourcing Service Staff System Background Management Software V1.0	China	2012SR096731	ChinaLink Professional Services Co., Ltd.	15 th October 2012	Registered

Software Name	Country of Registration	Registration Number	Current Owner	Approval Date	Status
CLPS Logistics Terminal Distribution Platform Software V1.0	China	2012SR096668	ChinaLink Professional Services Co., Ltd.	15 th October 2012	Registered
CLPS HR Background Support Management System V1.0	China	2012SR098440	ChinaLink Professional Services Co., Ltd.	19 th October 2012	Registered
CLPS HR Management System Platform Software (short name: HR Management System) V1.0	China	2012SR098429	ChinaLink Professional Services Co., Ltd.	19 th October 2012	Registered
CLPS Outsourcing Service Staff Resume Entry System Platform Software V1.0	China	2012SR098687	ChinaLink Professional Services Co., Ltd.	19 th October 2012	Registered
CLPS Bank Document Business Management Software (short name: Document Management) V1.0	China	2013SR054800	ChinaLink Professional Services Co., Ltd.	5 th June 2013	Registered
CLPS Bank Monetary Transaction Management Software (short name: Monetary Transaction Management) V1.0	China	2013SR054796	ChinaLink Professional Services Co., Ltd.	5 th June 2013	Registered
CLPS Bank Expense Management Software V1.0	China	2014SR168125	ChinaLink Professional Services Co., Ltd.	4 th November 2014	Registered
CLPS Bank Repayment Process Software V1.0	China	2014SR168130	ChinaLink Professional Services Co., Ltd.	4 th November 2014	Registered
CLPS Bank Point Accumulative Management Software V1.0	China	2014SR168132	ChinaLink Professional Services Co., Ltd.	4 th November 2014	Registered
CLPS Bank Interest Process Software V1.0	China	2014SR168136	ChinaLink Professional Services Co., Ltd.	4 th November 2014	Registered
CLPS Bank Credit Application Software V1.0	China	2014SR168138	ChinaLink Professional Services Co., Ltd.	4 th November 2014	Registered
CLPS Credit Card Risk Management Software V1.0	China	2015SR028695	ChinaLink Professional Services Co., Ltd.	10 th February 2015	Registered
CLPS Credit Card Account Establishment and Card Making Software V1.0	China	2015SR029015	ChinaLink Professional Services Co., Ltd.	10 th February 2015	Registered
CLPS Credit Card Customer Service Management Software V1.0	China	2015SR029012	ChinaLink Professional Services Co., Ltd.	10 th February 2015	Registered
CLPS Credit Card Cleaning Management Software V1.0	China	2015SR028884	ChinaLink Professional Services Co., Ltd.	10 th February 2015	Registered
CLPS Credit Card Authorization Management Software V1.0	China	2015SR028914	ChinaLink Professional Services Co., Ltd.	10 th February 2015	Registered
CLPS Mortgage Loan Plan Spreadsheet Tool Software (short name: Loan Spreadsheet) V1.0	China	2015SR198772	ChinaLink Professional Services Co., Ltd.	16 th October 2015	Registered
CLPS Bank Product Management Software V1.0	China	2015SR198610	ChinaLink Professional Services Co., Ltd.	16 th October 2015	Registered

Software Name	Country of Registration	Registration Number	Current Owner	Approval Date	Status
CLPS Bank Deposit and Withdrawal Services Management Software V1.0	China	2015SR198176	ChinaLink Professional Services Co., Ltd.	16 th October 2015	Registered
CLPS Bank Loan Application Management Software V1.0	China	2015SR198654	ChinaLink Professional Services Co., Ltd.	16 th October 2015	Registered
CLPS Bank Repayment Management Software V1.0	China	2015SR198649	ChinaLink Professional Services Co., Ltd.	16 th October 2015	Registered
CLPS Bank Exchange Rate Management Software V1.0	China	2015SR198774	ChinaLink Professional Services Co., Ltd.	16 th October 2015	Registered
CLPS Bank Interest Settlement Software V1.0	China	2015SR198246	ChinaLink Professional Services Co., Ltd.	16 th October 2015	Registered
CLPS Bank Foreign Exchange Transaction Software V1.0	China	2015SR198240	ChinaLink Professional Services Co., Ltd.	16 th October 2015	Registered
CLPS Bank Investment Management Securities Business Software V1.0	China	2016SR376924	ChinaLink Professional Services Co., Ltd.	16 th December 2016	Registered
CLPS Bank Big Data Decision-making Platform Customer Portrayal Software V1.0	China	2016SR382920	ChinaLink Professional Services Co., Ltd.	20 th December 2016	Registered
CLPS Internet Financial Cloud Mobile Banking Software V2.0	China	2016SR398821	ChinaLink Professional Services Co., Ltd.	27 th December 2016	Registered
CLPS Wantong Calculus Mall Software V2.0	China	2017SR118507	CLPS Beijing Hengtong Co., Ltd.	17 th April 2017	Registered
CLPS RC Rules Engine Software	China	2017SR169307	CLPS Ruicheng Co., Ltd.	9 th May 2017	Registered
CLPS Internet Financing Collection Management Software V2.0	China	2017SR119266	CLPS Ruicheng Co., Ltd.	17 th April 2017	Registered
CLPS Points Management Platform Software	China	2017SR119078	CLPS Ruicheng Co., Ltd.	17 th April 2017	Registered
CLPS Full-web Order Receiving Unified Platform Management Software V2.0	China	2017SR202535	CLPS Ruicheng Co., Ltd.	24 th May 2017	Registered
CLPS Quanxi Intelligent Marketing Platform Clients Growth Center Software V2.0	China	2017SR565576	ChinaLink Professional Services Co., Ltd.	13 th October 2017	Registered
CLPS Enterprise Recruitment Intelligent Cooperation Platform Software V2.0	China	2017SR646712	ChinaLink Professional Services Co., Ltd.	24 th November 2017	Registered
CLPS Intelligent Online Training Test Instructional Management Software V1.0	China	2017SR646507	ChinaLink Professional Services Co., Ltd.	24 th November 2017	Registered
CLPS Enterprise Internet Qinqin Loan Background Management Software V1.0	China	2017SR647634	ChinaLink Professional Services Co., Ltd.	24 th November 2017	Registered

Software Name	Country of Registration	Registration Number	Current Owner	Approval Date	Status
CLPS Blockchain Based Virtual Credits Background Management Software V2.0	China	2017SR645676	ChinaLink Professional Services Co., Ltd.	24 th November 2017	Registered
CLPS Enterprise Talent Information Intelligent Management Software V2.0	China	2017SR645650	ChinaLink Professional Services Co., Ltd.	24 th November 2017	Registered
CLPS Credit Card Big Data Integrated Management Background Software V2.0	China	2017SR645763	ChinaLink Professional Services Co., Ltd.	24 th November 2017	Registered
CLPS Enterprise Recruitment Intelligent Cooperation Platform Software V2.0	China	2017SR647190	ChinaLink Professional Services Co., Ltd.	24 th November 2017	Registered
CLPS General Points Platform and Business Center Software V1.0	China	2019SR0004653	ChinaLink Professional Services Co., Ltd.	2 nd January 2019	Registered
CLPS Online Financial Microloan Software V1.0	China	2019SR0004669	ChinaLink Professional Services Co., Ltd.	2 nd January 2019	Registered
CLPS Bank Customer Management Software V1.0	China	2019SR0004663	ChinaLink Professional Services Co., Ltd.	2 nd January 2019	Registered
CLPS Online Financial Management Software V1.0	China	2019SR0140935	ChinaLink Professional Services Co., Ltd.	14 th February 2019	Registered

Properties

Our principal executive office is located at the 2nd Floor, Building 18, Shanghai Pudong Software Park 498 Guoshoujing Road, Pudong, Shanghai 201203, PRC. We lease the premise and the lease term expires on June 30, 2021.

In addition, the Company manages and operates several other facilities. We rent office space in Tianjin, Shenzhen, Guangzhou, Dalian, Chengdu, Beijing, Baoding, Australia, Singapore, and Hong Kong. Rent expenses amounted to \$827,593, \$730,705, and \$565,328 for the years ended June 30, 2019, 2018 and 2017, respectively. We believe our facilities are adequate for our current needs.

Facility	Address	Space (m2)
Shanghai Office	2 nd Floor, Building 18, Shanghai Pudong Software Park, 498 Guoshoujing Road, Pudong District, Shanghai, PRC	1,259.94
Shanghai Office	Room 302, 3 rd Floor, Building 10, Shanghai Pudong Software Park, 498 Guoshoujing Road, Pudong District, Shanghai, PRC	741.16
Shanghai Office	1 st Floor, Building 18, Shanghai Pudong Software Park, 498 Guoshoujing Road, Pudong District, Shanghai, PRC	914.62
Dalian Office	Room 01-03, 1/F, 1 Huixian Garden, New & High-tech Industrial Park, Dalian, Liaoning Province, PRC	611.82
Dalian Office	Room 07-12, 7/F, 1 Huixian Garden, New & High-tech Industrial Park, Dalian, Liaoning Province, PRC	917.11
Tianjin Office	Room 5601-8, F6, Building No.5, Xinhuan West Road, TEDA, Tianjin, PRC	56.07
Shenzhen Office	Room 2008, Anhui Building, Shennan Avenue, Futian District, Shenzhen, Guangdong Province, PRC	234.16
Guangzhou Office	708-709A, 242 Tianhe Road, Tianhe District, Guangzhou, Guangdong Province, PRC	137
Chengdu Office	Unit 10, 25/Floor, Tower 2, 88 Jitai 5 th Road, Gaoxin District, Chengdu, Sichuan District, PRC	59.74
Beijing Office	Room 1108 B, 11 th Floor, Huasheng International Building, 12 Yabao Road, Chaoyang District, Beijing, PRC	122.47
Baoding Office	Room 710-712, 7 th Floor, Building A, Zhongguancun Innovation Center, 1799 North Chaoyang Street, Baoding, PRC	243
Australia Office	Part Tenancy 3, Part Level 9, 276 Flinders Street, Melbourne, VIC 3000, Australia	90.5
Singapore Office	3 Shenton Way, #12-11 Shenton House, Singapore	40
Hong Kong Office	Unit 702, Level 7, Millennium City 2, 378 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong	92.53

Legal Proceedings

We are currently not involved in any legal proceedings; nor are we aware of any claims that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Government Regulation

Regulations Relating to PRC Information Technology Service Industry

According to the Guidelines on Foreign Investment issued by the State Council in 2002 and the Catalog on Foreign Invested Industries (2007 Revision) issued by the National Development and Reform Commission and the Ministry of Commerce, IT services fall into the category of industries in which foreign investment is encouraged. The State Council has promulgated several notices since 2000 to launch favorable policies for IT services, such as preferential tax treatments and credit support.

Under rules and regulations promulgated by various Chinese government agencies, enterprises that have met specified criteria and are recognized as software enterprises by the relevant government authorities in China are entitled to preferential treatment, including financing support, preferential tax rates, export incentives, discretion and flexibility in determining employees' welfare benefits and remuneration. Software enterprise qualifications are subject to annual examination. Enterprises that fail to meet the annual examination standards will lose the favorable enterprise income tax treatment. Enterprises exporting software or producing software products that are registered with the relevant government authorities are also entitled to preferential treatment including governmental financial support, preferential import, export policies and preferential tax rates.

Companies in China engaging in information systems integration are required to obtain qualification certificates from the Ministry of Industry and Information Technology. "Information systems integration" means plan, design, development, implementation, service and safeguard of computer system and network system. Currently the Company does not engage in information system integration business, therefore the Company is not required to have such qualification certificates. Companies planning to set up computer information systems may only retain systems integration companies with appropriate qualification certificates. The qualification certificate is subject to review every two years and is renewable every four years. In 2003, the Ministry of Industry and Information Technology promulgated the Amended Appraisal Condition for Qualification Grade of Systems Integration of Computer Information to elaborate the conditions for appraising each of the four qualification grades of systems integration companies. Companies applying for qualification are graded depending on the scale of the work they undertake. The grades range from Grade 1 (highest) to Grade 4 (lowest) in the scale of the work the respective companies can undertake. Companies with Grade 3 qualification can independently undertake projects at the medium-scale and small-scale enterprise level and undertake projects at the large-scale enterprise level in cooperation with other entities.

In 2009, the Ministry of Commerce and the Ministry of Industry and Information Technology jointly promulgated a rule aiming to protect a fair competition environment in the PRC service outsourcing industry. This rule requires that each of the domestic enterprises which provides IT and technological BPO services and each of its shareholders, directors, supervisors, managers and employees should not violate the service outsourcing contract to disclose, use or allow others to use the confidential information of its client. Such enterprises are also required to establish an information protection system and take various measures to protect clients' confidential information, including causing their employees and third parties who have access to clients' confidential information to sign confidentiality agreements and or non-competition agreements.

Regulations on Intellectual Property Rights

The PRC Copyright Law, as amended, together with various regulations and rules promulgated by the State Council and the National Copyright Administration, protect software copyright in China. These laws and regulations establish a voluntary registration system for software copyrights administered by the Copyright Protection Center of China. Unlike patent and trademark registration, copyrighted software does not require registration for protection. Although such registration is not mandatory under PRC law, software copyright owners are encouraged to go through the registration process and registered software may receive better protection. The PRC Trademark Law, as amended, together with its implementation rules, protect registered trademarks. The Trademark Office of the State Administration for Industry and Commerce handles trademark registrations and grants a renewable protection term of 10 years to registered trademarks.

Regulation of Foreign Currency Exchange and Dividend Distribution

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

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

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

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

Circular 37. On July 4, 2014, SAFE issued Circular 37, which became effective as of July 4, 2014. According to Circular 37, PRC residents shall apply to SAFE and its branches for going through the procedures for foreign exchange registration of overseas investments before contributing the domestic assets or interests to a SPV. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required if the registered overseas SPV's basic information such as domestic individual resident shareholder, name, operating period, or major events such as domestic individual resident capital increase, capital reduction, share transfer or exchange, merger or division has changed. Although the change of overseas funds raised by overseas SPV, overseas investment exercised by overseas SPV and non-cross-border capital flow are not included in Circular 37, we may be required to make foreign exchange registration if required by SAFE and its branches. Moreover, Circular 37 applies retroactively. As a result, PRC residents who have contributed domestic assets or interests to a SPV, but failed to complete foreign exchange registration of overseas investments as required prior to implementation of Circular 37, are required to send a letter to SAFE and its branches for explanation. Under the relevant rules, failure to comply with the registration procedures set forth in Circular 37 may result in receiving a warning from SAFE and its branches, and may result in a fine of up to RMB 300,000 for an organization or up to RMB 50,000 for an individual. In the event of failing to register, if capital outflow occurred, a fine up to 30% of the illegal amount may be assessed. PRC residents who control our company are required to register with SAFE in connection with their investments in us. If we use our equity interest to purchase the assets or equity interest of a PRC company owned by PRC residents in the future, such PRC residents will be subject to the registration procedures described in Circular 37.

New M&A Regulations and Overseas Listings

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

On September 21, 2006, CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of a number of documents with the CSRC and it would take several months to complete the approval process. The application of this new PRC regulation remains unclear with no consensus currently existing among leading PRC law firms regarding the scope of the applicability of the CSRC approval requirement.

Our PRC counsel has advised us that, based on their understanding of the current PRC laws and regulations, that the corporate structure of the Group Companies shall not be deemed as "a foreign investor's merger and acquisition of a domestic enterprise" as specified in the Article 2 of the New M&A Rule, so the Company is not required to obtain approval from the CSRC for listing and trading of its shares. However, uncertainties still exist as to how the New M&A Rule will be interpreted and implemented and our opinion stated above is subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the New M&A Rule.

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

An offshore company may invest equity in a PRC company, which will become the PRC subsidiary of the offshore holding company after investment. Such equity investment is subject to a series of laws and regulations generally applicable to any foreign-invested enterprise in China, which include the Wholly Foreign Owned Enterprise Law, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Contractual Joint Venture Enterprise Law, all as amended from time to time, and their respective implementing rules; the Administrative Provisions on Foreign Exchange in Domestic Direct Investment by Foreign Investors; and the Notice of the State Administration on Foreign Exchange on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment. Under the aforesaid laws and regulations, the increase of the registered capital of a foreign-invested enterprise is subject to the prior approval by the original approval authority of its establishment. In addition, the increase of registered capital and total investment amount shall both be registered with SAIC and SAFE. Shareholder loans made by offshore parent holding companies to their PRC subsidiaries are regarded as foreign debts in China for regulatory purpose, which is subject to a number of PRC laws and regulations, including the PRC Foreign Exchange Administration Regulations, the Interim Measures on Administration on Foreign Debts, the Tentative Provisions on the Statistics Monitoring of Foreign Debts and its implementation rules, and the Administration Rules on the Settlement, Sale and Payment of Foreign Exchange. Under these regulations, the shareholder loans made by offshore parent holding companies to their PRC subsidiaries shall be registered with SAFE. Furthermore, the total amount of foreign debts that can be borrowed by such PRC subsidiaries, including any shareholder loans, shall not exceed the difference between the total investment amount and the registered capital amount of the PRC subsidiaries, both of which are subject to the governmental approval.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

We are a global information technology (“IT”), consulting and solutions service provider focused on delivering services to global institutions in banking, insurance and financial sectors, both in China and globally. For more than ten years, we have served as an IT Solutions provider to a growing network of clients in the global financial industry, including large financial institutions from the US, Europe, Australia and Hong Kong, and their PRC-based IT centers. We have created and developed a particular market niche by providing turn-key financial solutions. Since our inception, we have aimed to build one of the largest sales and service delivery platforms for IT services and solutions in China. We maintain ten delivery and/or research and development (“R&D”) centers to serve different customers in various geographic locations. Seven centers are located in mainland China, including cities of Shanghai, Beijing, Dalian, Tianjin, Chengdu, Guangzhou and Shenzhen. The remaining three centers are located in Hong Kong, Singapore and Australia. By combining onsite or onshore support and consulting with scalable and high-efficiency offsite or offshore services and processing, we are able to meet client demands in a cost-effective manner while retaining significant operational flexibility. We believe that maintaining our Company as a proven, reliable partner to our financial industry clients both in China and globally positions us well to capture greater opportunities in the rapidly evolving global market for IT consulting and solutions.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) and pursuant to the rules and requirements of the Securities Exchange Commission (“SEC”). The accompanying consolidated financial statements include the financial statements of CLPS and its consolidated subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our audited consolidated financial statements and the related notes included elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this Annual Report.

Overview of Company

CLPS Incorporation ("CLPS" or the "Company"), is a company that was established under the laws of the Cayman Islands on May 11, 2017 as a holding company. The Company, through its subsidiaries, designs, builds, and delivers IT services, solutions and other services to clients in the financial services industry. The Company customizes its services to specific industries with customer service teams typically based on-site at the customer locations. The Company's solutions enable its clients to meet the changing demands of an increasingly global, internet-driven, and competitive marketplace. Mr. Xiao Feng Yang, the Company's Chairman of the Board and President, together with Mr. Raymond Ming Hui Lin, the Company's Chief Executive Officer and Director are the controlling shareholders of the Company (the "Controlling Shareholders").

A reorganization of the Company's legal structure was completed on November 2, 2017. The reorganization involved the incorporation of CLPS, a Cayman Islands holding company; Qinheng Co., Limited ("Qinheng") and Qiner Co., Limited ("Qiner"), two holding companies established in Hong Kong, and Shanghai Qincheng Information Technology Co., Ltd. ("CLPS QC" or "WOFE") established in the People's Republic of China ("PRC"); and the transfer of ChinaLink Professional Service Co., Ltd. ("CLPS Shanghai") from the Controlling Shareholders to CLPS QC.

Prior to the reorganization, CLPS Shanghai's equity interests were 100% controlled by the same group of Controlling Shareholders of CLPS. CLIVST and FDT-CL are subsidiaries of Qinheng. JQ Technology Co., Limited ("JQ") and JIALIN Technology Limited ("JL") are subsidiaries of Qiner since October 17, 2017. CLPS Dalian Co., Ltd. ("CLPS Dalian"), CLPS Ruicheng Co., Ltd. ("CLPS RC"), CLPS Beijing Hengtong Co., Ltd. ("CLPS Beijing"), CLPS Technology (Singapore) Pte. Ltd. ("CLPS SG"), CLPS Technology (Australia) Pty Ltd. ("CLPS AU"), CLPS Technology (Hong Kong) Co., Limited ("CLPS Hong Kong"), Judge (Shanghai) Co., Ltd. ("Judge China"), Judge (Shanghai) Human Resource Co., Ltd. ("Judge HR"), CLPS Shenzhen Co., Ltd. ("CLPS Shenzhen") and CLPS Guangzhou Co., Ltd. ("CLPS Guangzhou") are all subsidiaries of CLPS Shanghai.

On July 25, 2017, the Company incorporated CLIVST, as a holding company, in BVI. On September 27, 2017 and October 24, 2017, the Company incorporated CLPS Guangzhou in Guangzhou, PRC and FDT-CL in Hong Kong. FDT-CL was liquidated on March 15, 2019. The liquidation of CLIVST was in process as of June 30, 2019.

On September 27, 2017, the Company and a non-controlling interest shareholder of CLPS Beijing incorporated Tianjin Huanyu Qinshang Network Technology Co., Ltd. ("Huanyu"). The Company subscribed 30% of equity interest in Huanyu for \$0.15 million (RMB 1,000,000). On May 24, 2019, the Company purchased the remaining 70% equity interest of Huanyu for consideration of \$0.07 million (RMB 462,000) and waived the receivables due from the other shareholder in the amount of \$29,133 (RMB200,000). The consideration was paid on May 28, 2019. As of June 30, 2019, the Company held 100% of Huanyu's equity and Huanyu became our wholly-owned subsidiary since May 24, 2019.

On October 17, 2017, the Company acquired 55% of JQ equity interest and its 100% owned subsidiary – JL for a cash consideration of approximately \$0.07 million to operate a software consulting business in Taiwan. In November 2018, the Company sold all the equity interest of JQ and JL for the consideration of \$0.05 million (425,290 Hong Kong dollars) to the non-controlling shareholder of JQ and no consideration was paid due to the Company's waiver.

On November 2, 2017, the Controlling Shareholders transferred their 100% ownership interests in CLPS Shanghai to CLPS QC and Qiner, which are 100% owned by Qinheng and CLPS. On October 31, 2017, the Controlling Shareholders transferred 100% of their equity interests in Qiner to CLPS. After the reorganization, CLPS owns 100% equity interests of the entities mentioned above. On December 7, 2017, the Board of Directors approved an amendment of the Article of Association of CLPS and a nominal share issuance to the existing shareholders. As a result, the existing shareholders own the same percentage of ownership in CLPS as their ownership interests in CLPS Shanghai prior to the reorganization. Since the Company and its subsidiaries are controlled by the same group of the shareholders before and after the reorganization. The above-mentioned transactions were accounted for as a recapitalization. The consolidation of the Company and its subsidiaries has been accounted for at historical cost and prepared on the basis as if the aforementioned transactions had become effective for all the periods presented in the consolidated financial statements.

On June 5, 2018, the Company incorporated CLPS US to develop business in related areas.

On June 13, 2018, the Company purchased a 2.7% equity interest in CLPS Lihong in Shanghai for consideration of \$0.2 million (or approximately RMB 1,000,000) to develop business in the related area. On January 25, 2019, the above investment agreement of CLPS Lihong was terminated. On March 1, 2019, the Company purchased a 36.84% equity interest in CLPS Lihong at a cash consideration of \$0.15 (RMB 1). In May 2019, the Company made capital contribution to CLPS Lihong of \$1.01 million (RMB 7 million).

Prior to June 2018, the Company held a 70% equity interest of CLPS Beijing which primarily engages in software development. On June 27, 2018, Qiner entered into a new share purchase agreement and purchased the remaining 30% equity interest of CLPS Beijing for consideration of \$0.6 million, holding 100% of CLPS Beijing's equity interest. The consideration was paid on July 5, 2018. Prior to June 2018, the remaining 30% equity interest of CLPS Beijing was recorded as a non-controlling interest on the balance sheet. The Company engaged an independent valuation firm to assist management in assessing the enterprise value of CLPS Beijing. The enterprise value of CLPS Beijing as of June 27, 2018 was \$1.94 million based on the evaluation report.

On August 15, 2018, the shareholders of CLPS SG and CLPS AU were changed to Qiner from CLPS Shanghai pursuant to the share purchase agreements. Qiner purchased the 100% equity interest of CLPS SG and CLPS AU from CLPS Shanghai for consideration of \$0.6 million (or approximately 850,000 Singapore dollars) and \$0.1 million (or approximately 200,000 Australian dollars), respectively. These transactions did not change the holding company's ownership of these entities.

On August 20, 2018, CLPS SG acquired an 80% interest in Infogain Solutions PTE. Ltd. ("Infogain") located in Singapore from Sharma Devendra Prasad and Deepak Malhotra with the final purchase price of \$0.4 million (or approximately 576,000 Singapore dollars).

On September 27, 2017, the Company and a non-controlling interest shareholder of CLPS Beijing incorporated Huanyu. The Company invested funds for a 30% equity interest in Huanyu for \$0.15 million (RMB 1,000,000). On May 24, 2019, the Company purchased the remaining 70% equity interest of Huanyu for consideration of \$0.07 million (RMB 462,000) and became the sole shareholder of Huanyu.

On April 3, 2019, Qiner purchased a 30% equity interest of Economic Modeling Information Technology Co., Ltd. ("EMIT"). The consideration is zero amount. Qiner subsequently made a capital contribution of \$0.74 million (RMB 3 million) to EMIT directly. The capital contribution of \$0.07 million was paid in June 2019. The remaining capital contribution of \$0.37 million had not been paid as of June 30, 2019.

The Company is dedicated to providing a full range of services and solutions across technology needs in finance. In recent years, we have both one of the largest IBM mainframe teams, and the largest VisionPLUS team in China, providing both development and implementation of core banking, credit card, online and e-commerce systems, as well as expertise across technology stacks including J2EE, .Net, C, C++ and mobile. We are ISO9001:2008 and CMMI 5 certified, and have been granted certificates of recognition by the Shanghai government, including *Enterprise Software Certification*, *High-tech Enterprise*, *Little Giant Company for Science and Technology* and *Professional Talent Development Training Camp*. In addition, the Company was recognized as one of the recipients of *2017 IDC China Top 25 FinTech Pioneers* during the award ceremony spearheaded by IDC on August 25, 2017. The Company has also received the *2018 Fintech Brand Leadership Award* at the China Finance Summit Winter Forum on November 30, 2018, in Beijing, China.

Our operations are primarily based in China, where we derive a substantial portion of our revenues. For the years ended June 30, 2019, 2018 and 2017, our revenues were \$64.9 million, \$48.9 million and \$31.4 million, respectively. Revenues generated outside of China were approximately \$4.5 million, \$1.7 million and \$0.5 million for fiscal 2019, 2018 and 2017, respectively. We had a net loss of \$3.4 million in fiscal 2019, and a net income of \$2.7 million and \$2.2 million in fiscal 2018 and 2017, respectively. We had a non-GAAP net income of \$3.6 million in fiscal 2019. Our total assets as of June 30, 2019 were \$32.7 million of which cash and cash equivalent amounted to \$6.6 million. Our total liabilities as of June 30, 2019 were \$11.3 million.

Factors Affecting Our Results of Operations

We believe the most significant factors that affect our business and results of operations include the following:

- Our ability to obtain new clients and repeat business from existing clients. Revenues from individual clients typically grow over time as we seek to increase the number and scope of services provided to each client, and as clients increase the complexity and scope of the work outsourced to us. Therefore, our ability to obtain new clients, as well as our ability to maintain and increase business from our existing clients, has a significant effect on our results of operations and financial condition. During fiscal 2019, our revenue derived from our IT consulting services increased by 30.9% or \$14.6 million from fiscal 2018, mainly attributable to revenue growth from our existing clients. IT consulting services revenue from new clients amounted to approximately \$4.9 million in fiscal 2019. During fiscal 2018, our revenue derived from our IT consulting services increased by 61.8% or \$18.0 million from fiscal 2017, mainly attributable to revenue growth from our existing clients. IT consulting services revenue from new clients amounted to approximately \$4.1 million in fiscal 2018.
- Our ability to expand our portfolio of service offerings. We intend to increase our revenues by continuing to expand our service offerings, providing quality service to our existing customers and attracting new customers. Through research and development, targeted hiring and strategic acquisitions, we have proactively invested in broadening our existing service lines, including those for serving our specific industry verticals.
- Our ability to attract, retain and motivate qualified employees. Our ability to attract, train and retain a large and cost-effective pool of qualified professionals, including our ability to leverage and expand our proprietary database of qualified IT professionals, to develop additional joint training programs with universities, and our employees' job satisfaction, will affect our financial performance.

We use the following key operating metrics to oversee and manage the Company's business: (i) developing new business, (ii) spearheaded by the CLPS Academy, focusing on the TCP/TDP training programs to provide highly trained and qualified employees to the clients; and (iii) retaining employees to continue to meet client ever-changing needs.

Our objective is to create value for both our customers and shareholders by enhancing our position as a leading IT services provider in the banking industry in China. We believe our strategic initiatives will continue to generate our sales growth, allow us to focus on managing capital, leveraging costs and driving margins to produce profitability and return on investment for our stockholders.

Acquisitions and Investments

Acquisition of Judge China

On November 9, 2016, CLPS Shanghai acquired 60% of Judge China and its 70% owned subsidiary Judge HR from Judge Company Asia Limited ("Judge Asia") with the final purchase price of \$480,061 (RMB 3.25 million). The Company funded the acquisition with cash consideration of \$454,388 (RMB 3.05 million) and a payable to Judge Asia of \$128,928 (RMB 0.9 million), of which \$103,255 (RMB 0.7 million) was subsequently offset with the Company's receivables from Judge Asia.

The transaction was accounted for as a business combination using the purchase method of accounting. The purchase price allocation of the transaction was determined by the Company with the assistance of an independent appraisal firm based on the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date. The purchase price allocation to assets acquired and liabilities assumed as of the date of acquisition was as follows:

	<u>Amounts</u>
Cash acquired	\$ 268,014
Accounts receivable, net	325,888
Prepayments, deposits and other assets, net	67,570
Property and equipment, net	1,875
Intangible assets, net	339,883
Salaries and benefits payable	(86,483)
Tax payables	(16,147)
Accounts payable and other current liabilities	(259,361)
Deferred tax liabilities	(65,264)
Non-controlling interests	(290,994)
Goodwill	195,080
Total consideration	<u>\$ 480,061</u>

The intangible assets include customer contracts of \$339,883, which were acquired by Judge China in 2013 with an estimated useful life of 10 years. The goodwill is mainly attributable to the excess of the consideration paid over the fair value of the net assets acquired that cannot be recognized separately as identifiable assets under U.S. GAAP, and comprises (a) the assembled work force and (b) the expected but unidentifiable business growth as a result of the synergy resulting from the acquisition.

Investment in Huanyu

On September 27, 2017, the Company made an investment of \$0.15 million (RMB 1,000,000) for a 30% of equity interest in Huanyu which was accounted for as an equity method investment. On May 24, 2019, the Company purchased the remaining 70% equity interest of Huanyu for \$0.07 million (RMB 462,000) and became the sole shareholder of Huanyu.

The transaction was accounted for as a business combination using the purchase method of accounting. As the business combination was achieved in stages, the Company remeasured its previously held 30% of equity interest in Huanyu at its acquisition date fair value of \$152,312. A loss of \$19,682 was recognized in subsidies and other income net in relation to the remeasurement. The valuation considered a discount for lack of control premium and lack of marketability applied to the fair value of the acquired business of Huanyu, which was determined using the income approach.

The purchase price allocation of the transaction was determined by the Company with the assistance of an independent appraisal firm based on the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date. The purchase price allocation to assets acquired and liabilities assumed as of the date of acquisition was as follows:

	<u>Amounts</u>
Cash acquired	\$ 79,156
Accounts receivable, net	87,674
Prepayments, deposits and other assets, net	7,707
Accounts payable and other current liabilities	(5,310)
Goodwill	50,045
Previous held equity interests	152,312
Cash consideration	66,960
Total consideration	<u>\$ 219,272</u>

The goodwill is mainly attributable to the excess of the consideration paid over the fair value of the net assets acquired that cannot be recognized separately as identifiable assets under U.S. GAAP, and comprise the expected but unidentifiable business growth as a result of the synergy resulting from the acquisition. The goodwill is not tax deductible. No intangible assets were identified from the acquisition.

For the period from July 1, 2018 to the acquisition date of May 24, 2019 and for the year ended June 30, 2018, 30% of Huanyu's results of operations was income of \$35,049 (RMB 239,073) and loss of \$8,684 (RMB56,461), respectively.

Investment in JQ

On October 17, 2017, the Company acquired a 55% equity interest in JQ, and its 100% owned subsidiary – JL in Taiwan for cash consideration of approximately \$0.07 million. As of the acquisition date, the assets of JQ were cash and other receivables and JQ and its subsidiary had no significant operating activities since inception. The estimated fair value of the assets acquired and liabilities assumed at the acquisition date was approximately the carrying value of the assets and liabilities based on the short-term nature of the assets acquired and liabilities assumed.

In November 2018, the Company sold all the equity interest of JQ and JL for the consideration of \$0.05 million (425,290 Hong Kong dollars) to the non-controlling shareholder of JQ and no consideration was paid due to the Company's waiver.

Acquisition of Infogain

On August 20, 2018, CLPS SG acquired an 80% equity in Infogain located in Singapore from Sharma Devendra Prasad and Deepak Malhotra with the final purchase price of \$0.4 million (or approximately 576,000 Singapore dollars).

The transaction was accounted for as a business combination using the purchase method of accounting. The purchase price allocation of the transaction was determined by the Company with the assistance of an independent appraisal firm based on the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date. The most significant variables in the valuation are discount rate, terminal value, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The purchase price allocation to assets acquired and liabilities assumed as of the date of acquisition was as follows:

	<u>Amounts</u>
Cash acquired	\$ 6,843
Accounts receivable	458,943
Prepayment and other receivable	14,454
Property and equipment, net	1,190
Intangible assets, net	337,685
Other payable and other current liabilities	(504,235)
Deferred tax liabilities	(57,406)
Non-controlling interests	(64,879)
Goodwill	227,506
Total consideration	<u>\$ 420,101</u>

Identifiable intangible assets acquired include customer contracts, which were valued using an income approach and determined to carry estimated remaining useful lives of approximately three years. The goodwill recognized represents the expected synergies and is not tax deductible.

Investment in CLPS Lihong

On March 1, 2019, the Company purchased a 36.84% equity interest in CLPS Lihong at a cash consideration of \$0.15 (RMB 1) on the condition that the Company could inject capital of \$1.01 million (RMB 7 million) into CLPS Lihong. In May 2019, the Company made capital contribution to CLPS Lihong of \$1.01 million (RMB 7 million). The Company accounts for the investment in CLPS Lihong as an equity method investment due to its significant influence over the entity. For the year ended June 30, 2019, the Company's share of CLPS Lihong's results of operations was loss of \$176,148 (RMB 1,201,523).

Investment in CLPS Beijing

Prior to June 2018, the Company held a 70% equity interest of CLPS Beijing which primarily engages in software development. On June 27, 2018, Qiner entered into a new share purchase agreement and purchased the remaining 30% equity interest of CLPS Beijing for consideration of \$0.6 million, holding 100% of CLPS Beijing's equity interest. The consideration was paid on July 5, 2018. Prior to June 2018, the remaining 30% equity interest of CLPS Beijing was recorded as non-controlling interests on the balance sheet. The Company engaged an independent valuation firm to assist management in assessing the enterprise value of CLPS Beijing. The enterprise value of CLPS Beijing as of June 27, 2018 was \$1.94 million based on the evaluation report.

Investment in EMIT

On April 3, 2019, Qiner purchased a 30% equity interest of EMIT with nil consideration. In June, 2019, the Company made capital contribution to EMIT of \$0.07 million (RMB 0.5 million). The Company accounts for the investment in EMIT as an equity method investment due to its significant influence over the entity. For the year ended June 30, 2019, the Company's share of EMIT's results of operations was loss of \$4,230 (RMB 28,853).

Results of Operations

Results of Operations for Continuing Operations

The following table sets forth a summary of our consolidated statements of operations for the periods indicated.

	For the years ended June 30,		
	2019	2018	2017
Revenues	\$ 64,932,937	\$ 48,938,593	\$ 31,361,976
Less: Cost of revenues	(41,178,356)	(31,277,255)	(18,669,812)
Gross profit	<u>23,754,581</u>	<u>17,661,338</u>	<u>12,692,164</u>
Operating expenses:			
Selling and marketing expenses	2,179,029	2,225,702	1,206,493
Research and development expenses	7,978,883	7,837,873	4,232,788
General and administrative expenses	17,384,393	5,871,622	5,647,790
Total operating expenses	<u>27,542,305</u>	<u>15,935,197</u>	<u>11,087,071</u>
(Loss) income from operations	(3,787,724)	1,726,141	1,605,093
Subsidies and other income, net	779,508	960,784	508,187
Other expenses	(92,429)	(84,155)	(10,469)
(Loss) income before income tax and share of loss in equity investees	(3,100,645)	2,602,770	2,102,811
Provision (benefits) for income taxes	186,615	(112,128)	(118,546)
(Loss) income before share of loss in equity investees	(3,287,260)	2,714,898	2,221,357
Share of loss in equity investees, net of tax	(145,329)	-	-
Net (loss) income	(3,432,589)	2,714,898	2,221,357
Less: Net (loss) income attributable to non-controlling interests	(162,813)	280,435	173,912
Net (loss) income attributable to CLPS Incorporation's shareholders	\$ (3,269,776)	\$ 2,434,463	\$ 2,047,445
Basic (loss) earnings per common share	(0.24)	0.21	0.18
Weighted average number of share outstanding – basic	13,843,764	11,517,123	11,290,000
Diluted (loss) earnings per common share	(0.24)	0.21	0.18
Weighted average number of share outstanding – diluted	13,843,764	11,636,367	11,290,000
Supplemental information:			
Non-GAAP income before income tax	3,915,444	2,602,770	2,102,811
Non-GAAP net income	3,583,500	2,714,898	2,221,357
Non-GAAP net income attributable to CLPS Incorporation's shareholders	3,746,313	2,434,463	2,047,445
Non-GAAP basic earnings per common share	0.27	0.21	0.18
Weighted average number of share outstanding – basic	13,843,764	11,517,123	11,290,000
Non-GAAP diluted earnings per common share	0.27	0.21	0.18
Weighted average number of share outstanding – diluted	13,969,436	11,636,367	11,290,000

Use of Non-GAAP Financial Measures

The consolidated financial information is prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), except that the consolidated statement of changes in shareholders’ equity, consolidated statements of cash flows, and the detailed notes have not been presented. The Company uses non-GAAP income before income tax and share of loss of equity investees, non-GAAP net income attributable to the Company, and basic and diluted non-GAAP net income per share, which are non-GAAP financial measures. Non-GAAP income before income tax and share of loss of equity investees is income before income tax and share of loss of equity investees excluding share-based compensation expenses. Non-GAAP net income attributable to the Company is net income attributable to the Company excluding share-based compensation expenses. Basic and diluted non-GAAP net income per share is non-GAAP net income attributable to common shareholders divided by weighted average number of shares used in the calculation of basic and diluted net income per share. The Company believes that separate analysis and exclusion of the non-cash impact of share-based compensation expenses clarity to the constituent parts of its performance. The Company reviews these non-GAAP financial measures together with GAAP financial measures to obtain a better understanding of its operating performance. It uses the non-GAAP financial measure for planning, forecasting and measuring results against the forecast. The Company believes that non-GAAP financial measures are useful supplemental information for investors and analysts to assess its operating performance without the effect of non-cash share-based compensation expenses, which have been and will continue to be significant recurring expenses in its business. However, the use of non-GAAP financial measures has material limitations as an analytical tool. One of the limitations of using non-GAAP financial measures is that they do not include all items that impact the Company’s net income for the period. In addition, because non-GAAP financial measures are not measured in the same manner by all companies, they may not be comparable to other similar titled measures used by other companies. In light of the foregoing limitations, you should not consider non-GAAP financial measure in isolation from or as an alternative to the financial measure prepared in accordance with U.S. GAAP.

The presentation of these non-GAAP financial measures is not intended to be considered in isolation from, or as a substitute for, the financial information prepared and presented in accordance with U.S. GAAP. The following table sets forth a reconciliation of non-GAAP general and administrative expense, non-GAAP income before income tax and share of loss of equity investees, non-GAAP net income, non-GAAP net income attributable to CLPS Incorporation’s shareholders, and non-GAAP Basic and diluted earnings per common share for the periods indicated:

	For the year ended June 30, 2019
Cost of revenues	41,178,356
Less: share-based compensation expenses	9,472
Non-GAAP cost of revenues	41,168,884
Selling and marketing expenses	2,179,029
Less: share-based compensation expenses	46,100
Non-GAAP selling and marketing expenses	2,132,929
General and administrative expenses	17,384,393
Less: share-based compensation expenses	6,960,517
Non-GAAP general and administrative expenses	10,423,876
Loss before income tax	(3,100,645)
Add: share-based compensation expenses	7,016,089
Non-GAAP income before income tax and share of loss of equity investees	3,915,444
Net loss	(3,432,589)
Add: share-based compensation expenses	7,016,089
Non-GAAP net income	3,583,500
Net loss attributable to CLPS Incorporation’s shareholders	(3,269,776)
Add: share-based compensation expenses	7,016,089
Non-GAAP net income attributable to CLPS Incorporation’s shareholders	3,746,313
Weighted average number of share outstanding used in computing GAAP and non-GAAP basic earnings	13,843,764
GAAP basic (loss) earnings per common share	(0.24)
Add: share-based compensation expenses	0.51
Non-GAAP basic earnings per common share	0.27
Weighted average number of share outstanding used in computing GAAP diluted earnings	13,843,764
Add: effect of dilutive securities (note 1)	194,824
Weighted average number of share outstanding used in computing non-GAAP diluted earnings	14,038,588
GAAP diluted (loss) earnings per common share	(0.24)
Add: share-based compensation expenses	0.51
Non-GAAP diluted earnings per common share	0.27

For the Years Ended June 30, 2019 and 2018

Revenues

We derive revenues by providing integrated IT services and solutions, including: (i) IT consulting services, which primarily includes application development services for banks and institutions in the financial industry, which are billed on a time-and-expense basis, (ii) customized IT solutions services, which primarily includes customized solution development and maintenance service for general enterprises, which are billed on a fixed-price basis, and (iii) other revenue from product and third-party software sales.

Our customer contracts may be categorized by pricing model into time-and-expense contracts and fixed-price contracts. Under time-and-expense contracts, we are compensated for actual time incurred by our IT professionals at negotiated daily billing rates. We are also entitled to charge overtime fees in addition to the daily billing rates under some time-and-expense contracts. Fixed-price contracts require us to develop customized IT solutions throughout the contractual period, and we are paid in installments upon completion of specified milestones under the contracts with enforceable right to payments.

For fiscal 2019 and 2018, most of our time-and-expense contracts were generated by our IT consulting services for clients in the financial industry. In comparison, all of our fixed-price contracts were generated by our customized IT solution business for clients in the financial industry and others.

The following table presents our revenues by our service lines.

	For the Year ended June 30,					
	2019		2018		Variance	Variance %
	Revenue	% of total Revenue	Revenue	% of total Revenue		
IT consulting services	\$ 61,755,355	95.1%	\$ 47,159,651	96.4%	\$ 14,595,704	30.9%
Customized IT solution services	3,041,482	4.7%	1,634,100	3.3%	1,407,382	86.1%
Other	136,100	0.2%	144,842	0.3%	(8,742)	(6.0%)
Total	\$ 64,932,937	100.0%	\$ 48,938,593	100.0%	\$ 15,994,344	32.7%

Our total revenues increased by approximately \$16.0 million, or 32.7%, to approximately \$64.9 million for the fiscal year ended June 30, 2019 from approximately \$48.9 million for the fiscal year ended June 30, 2018. The overall growth in our revenues reflected an increase in revenues from our IT consulting services and derived primarily from existing customers.

For the year ended June 30, 2019, revenue derived from our IT consulting services increased by 30.9% to \$61.8 million from \$47.2 million in fiscal 2018, primarily reflecting the increasing demands for our IT consulting services from banks and other financial institutions. For fiscal 2019 and 2018, 47.5% and 46.8% of our IT consulting services revenue were from international banks. In fiscal 2019, we strengthened our expertise in the financial industry to leverage our existing industry knowledge and grew our customer base of local Chinese financial institutions.

Cost of revenues

Our cost of revenues mainly consisted of compensation benefit expenses for our IT professionals, travel expenses and material costs. Our cost of revenues increased by \$9.9 million or 31.7% to approximately \$41.2 million in fiscal 2019 from approximately \$31.3 million in fiscal 2018 primarily as a result of increased revenue, therefore resulting in increased headcount, expanded office facilities and increase of depreciation and amortization expenses to enable and match the growth of our business revenue. As a percentage of revenues, our cost of revenues was 63.4% and 63.9% for fiscal 2019 and 2018, respectively. Our total number of employees grew from 1,655 employees as of June 30, 2018 to 2,085 employees as of June 30, 2019.

Gross profit and gross margin

Our gross profit increased by \$6.1 million, or 34.5%, to approximately \$23.8 million in fiscal 2019 from approximately \$17.7 million in fiscal 2018. The higher gross profit in fiscal 2019 was primarily attributable to the increase in our billing rates of both IT consulting services and customized IT solution services. Also, customized IT solution services contribute favorably to our client retention and understanding of our clients' businesses and provide opportunities to cross-sell our other services. Gross margin increased to 36.6% in fiscal 2019 from 36.1% for the same period of last year.

Selling and marketing expenses

Selling and marketing expenses primarily consisted of salary and compensation expenses relating to our sales and marketing personnel, and also included entertainment, travel and transportation, and other expenses relating to our marketing activities.

Selling and marketing expenses decreased by \$0.05 million or 2.1% from \$2.23 million in fiscal 2018 to \$2.18 million in fiscal 2019. Accordingly, as a percentage of sales, our selling expenses were 3.4% of revenues in fiscal 2019 as compared to 4.5% in fiscal 2018. While we expect our selling and marketing expenses to increase as we continue our business expansion, we expect these expenses to remain relatively steady as a percentage of our net revenues to support our business growth in the future.

Research and development (“R&D”) expenses

R&D expenses primarily consisted of compensation and benefit expenses relating to our research and development personnel as well as office overhead and other expenses relating to our R&D activities. Our R&D expenses were \$8.0 million in fiscal 2019, which was stable compared to \$7.8 million in fiscal 2018, representing 12.3% and 16.0% of our total revenues for fiscal 2019 and 2018, respectively. We expect to increase our investment in research and development to enhance our industry knowledge, improve our competitiveness and enable us to identify attractive market opportunities for new and enhanced services and solutions.

General and administrative expenses

General and administrative expenses primarily consisted of salary and compensation expenses relating to our finance, legal, human resources and executive office personnel, and included share-based compensation expenses, rental expenses, depreciation and amortization expenses, office overhead, professional service fees and travel and transportation costs.

General and administrative expenses increased by \$11.5 million, or 196.1%, to \$17.4 million in fiscal 2019 from \$5.9 million in the prior year. The increase was primarily due to an addition of \$7.0 million non-cash share-based compensation expenses related to the grants under the 2017 Incentive Compensation Plan. After the deduction of non-cash share-based compensation expenses, non-GAAP general and administrative expenses increased by \$4.5 million, or 77.5%, to \$10.4 million in fiscal 2019 from \$5.9 million in the same period of the previous year. The increase in Non-GAAP general and administrative expenses was primarily due to routine expenses incurred after going public and due to a year-over-year increase in salary and compensation expenses.

Subsidies and other income, net

Subsidies and other income, net primarily included government subsidies which represented amounts granted by local government authorities as a general incentive for us to promote development of the local technology industry. The Company records government subsidies in subsidies and other income upon received and when there is no further performance obligation. Total government subsidies amounted to \$0.7 million and \$0.9 million for the years ended June 30, 2019 and 2018, respectively.

Income (loss) before income taxes and share of loss in equity investees

Income (loss) before income taxes and share of loss in equity investees decreased by \$5.7 million to a \$3.1 million loss in fiscal 2019 from an income of \$2.6 million in fiscal 2018. After the deduction of non-cash share-based compensation expenses, non-GAAP income before income taxes and share of loss in equity investees increased by \$1.3 million, or 50.4%, to \$3.9 million in fiscal 2019 from \$2.6 million in the same period of the previous year.

Provision (benefits) for income taxes

Our provision for income taxes in fiscal 2019 increased by \$0.3 million to \$0.2 million from \$0.1 million benefit for income taxes in fiscal 2018, mainly due to the Company’s reversal of the beginning balances of deferred tax assets related to the net operating losses for some of the Company’s subsidiaries.

Share of loss in equity investees, net of tax

The share of loss in equity investees, net of tax in fiscal 2019 was equity investment loss of Huanyu, Lihong and EMIT.

Net income (loss)

Net income decreased by \$6.1 million to a loss of \$3.4 million in fiscal 2019 from an income of \$2.7 million in fiscal 2018. The decrease in net income was due to the increase in non-cash share-based compensation expenses. After the deduction of non-cash share-based compensation expenses, non-GAAP net income increased by \$0.9 million, or 32.0%, to \$3.6 million in fiscal 2019 from \$2.7 million in the previous year.

Other comprehensive income (loss)

Foreign currency translation adjustments amounted to a loss of \$0.4 million and a gain of \$0.06 million for the years ended June 30, 2019 and 2018, respectively. The balance sheet amounts with the exception of equity as of June 30, 2019 were translated at 6.8650 RMB to 1.00 USD as compared to 6.6171 RMB to 1.00 USD as of June 30, 2018. The equity accounts were stated at their historical rate. The average translation rates applied to the income statements accounts for the years ended June 30, 2019 and 2018 were 6.8211 RMB to 1.00 USD and 6.5023 RMB to 1.00 USD, respectively. The change in the value of the RMB relative to the U.S. dollar may affect our financial results reported in the U.S. dollar terms without giving effect to any underlying change in our business or results of operation.

For the Years Ended June 30, 2018 and 2017

Revenues

We derive revenues by providing integrated IT services and solutions, including: (i) IT consulting services, which primarily includes application development services for banks and institutions in the financial industry, which are billed on a time-and-expense basis, (ii) customized IT solutions services, which primarily includes customized solution development and maintenance service for general enterprises and is billed on a fixed-price basis, and (iii) other revenue from product and third-party software sales.

Our customer contracts may be categorized by pricing model into time-and-expense contracts and fixed-price contracts. Under time-and-expense contracts, we are compensated for actual time incurred by our IT professionals at negotiated daily billing rates. We are also entitled to charge overtime fees in addition to the daily billing rates under some time-and-expense contracts. Fixed-price contracts require us to develop customized IT solutions throughout the contractual period, and we are paid in installments upon completion of specified milestones under the contracts with enforceable right to payments.

For fiscal 2018 and 2017, most of our time-and-expense contracts were generated by our IT consulting services for clients in the financial industry. In comparison, all of our fixed-price contracts were generated by our customized IT solution business for clients in the financial industry and others.

The following table presents our revenues by our service lines.

	For the Year ended June 30,					
	2018		2017		Variance	Variance %
Revenue	% of total Revenue	Revenue	% of total Revenue			
IT consulting services	\$ 47,159,651	96.4%	\$ 29,146,470	92.9%	\$ 18,013,181	61.8%
Customized IT solution services	1,634,100	3.3%	1,846,423	5.9%	(212,323)	(11.5)%
Other	144,842	0.3%	369,083	1.2%	(224,241)	(60.8)%
Total	<u>\$ 48,938,593</u>	<u>100.0%</u>	<u>\$ 31,361,976</u>	<u>100.0%</u>	<u>\$ 17,576,617</u>	<u>56.0%</u>

Our total revenues increased by approximately \$17.6 million, or 56.0%, to approximately \$48.9 million for the fiscal year ended June 30, 2018 from approximately \$31.4 million for the fiscal year ended June 30, 2017. The overall growth in our revenues reflected an increase in revenues from our IT consulting services.

For the year ended June 30, 2018, revenue derived from our IT consulting services increased by 61.8% to \$47.2 million from \$29.1 million in fiscal 2017, primarily reflecting the increasing demands for our IT consulting services from banks and other financial institutions. For fiscal 2018 and 2017, 46.8% and 54.0% of our IT consulting services revenue were from international banks. In fiscal 2018, we strengthened our expertise in the financial industry to leverage our existing industry knowledge and grew our customer base of local Chinese financial institutions.

Cost of revenues

Our cost of revenues mainly consisted of compensation benefit expenses for our IT professionals, travel expenses and material costs. Our cost of revenues increased by \$12.6 million or 67.5% to approximately \$31.3 million in fiscal 2018 from approximately \$18.7 million in fiscal 2017 primarily as a result of increased revenue and, therefore resulting in increased headcount, expanded office facilities and increase of depreciation and amortization expenses to enable and match the growth of our business revenue. As a percentage of revenues, our cost of revenues was 63.9% and 59.5% for fiscal 2018 and 2017, respectively. Our total number of employees grew from 1,242 employees as of June 30, 2017 to 1,655 employees as of June 30, 2018.

Gross profit and gross margin

Our gross profit increased by \$5.0 million, or 39.2%, to approximately \$17.7 million in fiscal 2018 from approximately \$12.7 million in fiscal 2017. The higher gross profit in fiscal 2018 was primarily attributable to the increase in our billing rates of both IT consulting services and customized IT solution services. Also, customized IT solution services contribute favorably to our client retention and understanding of our clients' businesses and provide opportunities to cross-sell our other services. Gross margin decreased to 36.1% in fiscal 2018, from 40.5% for the same period of last year. The decrease in gross margin was primarily due to the lower gross margin of the new projects.

Selling and marketing expenses

Selling and marketing expenses primarily consisted of salary and compensation expenses relating to our sales and marketing personnel, and also included entertainment, travel and transportation, and other expenses relating to our marketing activities.

Selling and marketing expenses increased by \$1.0 million or 84.5% from \$1.2 million in fiscal 2017 to \$2.2 million in fiscal 2018. The increase was primarily attributable to our expansion of the pre-sales and marketing teams in Shanghai and Dalian in China to support our operations. Accordingly, as a percentage of sales, our selling expenses were 4.5% of revenues in fiscal 2018 as compared to 3.8% in fiscal 2017. While we expect our selling and marketing expenses to increase as we continue our business expansion, we expect these expenses to remain relatively steady as a percentage of our net revenues to support our business growth in the near future.

Research and development (“R&D”) expenses

R&D expenses primarily consisted of compensation and benefit expenses relating to our research and development personnel as well as office overhead and other expenses relating to our R&D activities. Our R&D expenses increased by \$3.6 million from \$4.2 million in fiscal 2017 to \$7.8 million in fiscal 2018, representing 16.0% and 13.5% of our total revenues for fiscal 2018 and 2017, respectively. The increased R&D expense in fiscal 2018 is attributable to our launching several research projects related to cloud computing and mobile internet application. We expect to increase our investment in research and development to enhance our industry knowledge, improve our competitiveness and enable us to identify attractive market opportunities for new and enhanced services and solutions.

General and administrative expenses

General and administrative expenses primarily consisted of salary and compensation expenses relating to our finance, legal, human resources and executive office personnel, and included rental expenses, depreciation and amortization expenses, office overhead, professional service fees and travel and transportation costs.

General and administrative expenses increased by \$0.3 million or 4.0% from approximately \$5.6 million in fiscal 2017 to approximately \$5.9 million in fiscal 2018. As a percentage of revenues, general and administrative expenses were 12.0% and 18.0% of our revenue in fiscal 2018 and 2017, respectively.

Subsidies and other income, net

Subsidies and other income, net primarily included government subsidies which represented amounts granted by local government authorities as a general incentive for us to promote development of the local technology industry. The Company records government subsidies in subsidies and other income upon received and when there is no further performance obligation. Total government subsidies amounted to \$0.9 million and \$0.4 million for the years ended June 30, 2018 and 2017, respectively. The increase in government subsidies in fiscal 2018 was because local government was in the process of amending the existing subsidy policy and increased the approvals for government subsidies that are applicable to us. While we expect the continued support of local government to promote the technology industry, we only record government subsidies as subsidies and other income when received due to uncertainties.

Income before income taxes and share of loss in equity investees

Our income before income taxes and share of loss in equity investees was approximately \$2.6 million in fiscal 2018, an increase of 23.8% compared with fiscal 2017, mainly due to the expansion of business and increased revenues.

Provision (benefit) for income taxes

Our provision for income taxes benefit in fiscal 2018 was almost the same with the income tax benefit in fiscal 2017, mainly due to the Company recognized deferred tax assets as a result of the net operating losses carry forward for some of the Company’s subsidiaries. Certain net operating losses were not used and carried forward to future years.

Net income

Our net income was approximately \$2.7 million in fiscal 2018, an increase of \$0.5 million from \$2.2 million in fiscal 2017. The increase in net income was in line with increased revenues, gross profit and operating expenses for fiscal 2018 as compared to fiscal 2017 as mentioned above.

Other comprehensive income (loss)

Foreign currency translation adjustments amounted to a gain of \$0.06 million and a loss of \$0.1 million for the years ended June 30, 2018 and 2017, respectively. The balance sheet amounts with the exception of equity as of June 30, 2018 were translated at 6.6171 RMB to 1.00 USD as compared to 6.7793 RMB to 1.00USD as of June 30, 2017. The equity accounts were stated at their historical rate. The average translation rates applied to the income statements accounts for the years ended June 30, 2018 and 2017 were 6.5023 RMB to 1.00 USD and 6.8087 RMB to 1.00 USD, respectively. The change in the value of the RMB relative to the U.S. dollar may affect our financial results reported in the U.S. dollar terms without giving effect to any underlying change in our business or results of operation.

Liquidity and Capital Resources

As of June 30, 2019, we had cash and cash equivalents of approximately \$6.6 million. Our current assets were approximately \$29.7 million, and our current liabilities were approximately \$11.3 million. Total shareholders' equity as of June 30, 2019 was approximately \$21.4 million. We believe that we will have sufficient working capital to operate our business for the next 12 months from the issuance date of this report.

Substantially all of our operations are conducted in China and all of our revenue, expenses, cash and cash equivalents are denominated in RMB. RMB is subject to the exchange control regulation in China, and, as a result, we may have difficulty distributing any dividends outside of China due to PRC exchange control regulations that restrict our ability to convert RMB into U.S. dollars. As of June 30, 2019, cash and cash equivalents of approximately \$1,891,584, \$450,388, \$25,444 and \$4,233,919 were held by the Company and its subsidiaries in mainland PRC, Singapore, Australia and Hong Kong, respectively. We would need to accrue and pay withholding taxes if we were to distribute funds from our subsidiaries in China to our offshore subsidiaries. We do not intend to repatriate such funds in the foreseeable future, as we plan to use existing cash balance in PRC for general corporate purposes.

In assessing our liquidity, we monitor and analyze our cash on hand, our ability to generate sufficient revenue sources in the future and our operating and capital expenditure commitments. The Company plans to fund working capital through its operations, bank borrowings and additional capital contribution from shareholders. Our operating cash flow was positive for the year ended June 30, 2019. We have historically funded our working capital needs primarily from operations, advance payments from customers and loans from shareholders. Our working capital requirements are affected by the efficiency of our operations, the numerical volume and dollar value of our sales contracts, the progress or execution on our customer contracts, and the timing of accounts receivable collections.

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

	For the Years Ended June 30,		
	2019	2018	2017
Net cash provided by (used in) operating activities	\$ 401,107	\$ (4,772,610)	\$ 624,344
Net cash used in investing activities	(3,862,360)	(492,672)	(101,218)
Net cash provided by (used in) financing activities	466,782	10,103,240	(832,752)
Effect of exchange rate change	(147,080)	90,360	(153,002)
Net (decrease) increase in cash	(3,141,551)	4,928,318	(462,628)
Cash and cash equivalents at the beginning of the year	9,742,886	4,814,568	5,277,196
Cash and cash equivalents at the end of the year	<u>\$ 6,601,335</u>	<u>\$ 9,742,886</u>	<u>\$ 4,814,568</u>

Operating Activities

Net cash provided by operating activities was approximately \$0.4 million in fiscal 2019, including net loss of \$3.4 million, adjusted for non-cash items of \$7.6 million and negative adjustments for changes in operating assets and liabilities of \$3.8 million. The adjustments for changes in operating assets and liabilities mainly included an increase in accounts receivable of \$3.1 million in fiscal 2019. During fiscal 2019, our accounts receivable turnover was 99 days, increased from 84 days in fiscal 2018 due to the longer payment approval process of the major customers compared with payment time of fiscal 2018. The adjustments for changes in operating assets and liabilities also included offset with an increase in salaries and benefits payable of \$0.6 million due to unpaid employee compensation and benefits, and a decrease in accounts payable and other payables of \$0.8 million in fiscal 2019.

Net cash used in operating activities was approximately \$4.8 million in fiscal 2018, including net income of \$2.7 million, adjusted for non-cash items of \$0.1 million and negative adjustments for changes in operating assets and liabilities of \$7.6 million. The adjustments for changes in operating assets and liabilities mainly included an increase in accounts receivable of \$9.8 million due to increased sales in fiscal 2018. During fiscal 2018, our accounts receivable turnover was 84 days, increased from 65 days in fiscal 2017 due to the longer payment approval process of the major customers compared with payment time of fiscal 2017. The adjustments for changes in operating assets and liabilities also included offset with an increase in salaries and benefits payable of \$1.8 million due to unpaid employee compensation and benefits, an increase in prepayments and other assets of \$0.6 million and an increase in tax payable of \$0.3 million due to increased revenue in fiscal 2018.

Net cash provided by operating activities was approximately \$0.6 million in fiscal 2017, including net income of \$2.2 million, adjusted for non-cash items of \$8,975 and negative adjustments for changes in operating assets and liabilities of \$1.6 million. The adjustments for changes in operating assets and liabilities mainly included an increase in accounts receivable of \$2.4 million due to increased sales in fiscal 2017. During fiscal 2017, our revenue turnover in days was 65 days, slightly increased from 64 days in fiscal 2016. The adjustments for changes in operating assets and liabilities also included an increase in deferred costs of \$0.2 million for project progress and an increase in prepaid income tax of \$0.2 million, and offset with an increase in salaries and benefits payable of \$0.9 million due to unpaid employee compensation and benefits and an increase in tax payable of \$0.2 million due to increased revenue in fiscal 2017.

Investing Activities

Net cash used in investing activities was approximately \$3.9 million in fiscal 2019, primarily due to our purchase of office equipment and furniture of \$0.5 million, long term investment of \$1.1 million, our business acquisition of \$0.4 million and short-term investments of \$1.8 million in fiscal 2019, to better manage opportunities and capitalize on the growth potential in the human resource related industry. In fiscal 2019, we paid \$0.07 million (RMB 462,000) for a 70% of equity interest in Huanyu, and \$0.4 million (576,000 Singapore dollars) for an 80% of equity interest in Infogain, respectively. The Company also injected \$0.07 million (RMB 500,000) in EMIT and \$1.0 million (RMB 7,000,000) in CLPS Lihong, respectively.

Net cash used in investing activities was approximately \$0.5 million in fiscal 2018, primarily due to our purchase of office equipment and furniture of \$0.2 million, our acquisition of Judge China of \$0.1 million (RMB 700,000) and our acquisition of Tianjin Huanyu Qinshang Network Technology Co., Ltd. (“Huanyu”) of \$0.15 million (RMB 1,000,000) in fiscal 2018, to better manage opportunities and capitalize on the growth potential in the human resource related industry in China. On September 27, 2017, the Company and a non-controlling interest shareholder of CLPS Beijing incorporated Huanyu. The Company paid \$0.15 million (RMB 1,000,000) for a 30% of equity interest in Huanyu in fiscal 2018.

Net cash used in investing activities was approximately \$0.1 million in fiscal 2017, primarily due to our acquisition of Judge China in fiscal 2017, to better manage opportunities and capitalize on the growth potential in the human resource related industry in China.

Financing Activities

Net cash provided by financing activities was approximately \$0.5 million in fiscal 2019. During the fiscal 2019, we had bank loans of approximately \$3.6 million, repaid loans of approximately \$3.9 million, and received the over-allotment proceeds of \$1.5 million and paid \$0.6 million for purchase of non-controlling interests in CLPS Beijing.

Net cash provided by financing activities was approximately \$10.1 million in fiscal 2018. During the fiscal 2018, we had bank loans of approximately \$5.7 million, repaid loans of approximately \$3.1 million, and paid \$0.6 million of dividends to our existing shareholders. On May 24, 2018, CLPS consummated its initial public offering, or IPO, of 2,000,000 shares, \$0.0001 par value per share. The units were sold at an offering price of \$5.25 per unit, generating total gross proceeds of \$10.5 million. Net proceeds from the IPO were \$9.5 million. On June 8, 2018, CLPS closed on the over-allotment option on the additional 300,000 common shares at the IPO price of \$5.25 per share. As a result, the Company raised additional gross proceeds of approximately \$1.58 million, in addition to the IPO gross proceeds of approximately \$10.5 million, or combined gross proceeds in this IPO of approximately \$12.08 million, before underwriting discounts and commissions and offering expenses. Net proceeds from the IPO and the over-allotment were approximately \$11.0 million.

Net cash used in financing activities was approximately \$0.8 million in fiscal 2017. During fiscal 2017, we repaid related parties loans of approximately \$0.1 million and paid \$0.7 million of dividends to our existing shareholders.

Capital Expenditures

The Company made capital expenditures of \$0.5 million, \$0.2 million and \$0.06 million for the years ended June 30, 2019, 2018 and 2017, respectively. In these periods, our capital expenditures were mainly used for purchases of office equipment. The Company will continue to make capital expenditures to meet the expected growth of its business.

Impact of Inflation

We do not believe the impact of inflation on our company is material. Our operations are in China and China’s inflation rates have been relatively stable over the last two years: 1.9% in 2018 and 1.6% in 2017.

Contractual Obligations

The Company’s subsidiaries lease office spaces under various operating leases. Operating lease expense amounted to \$827,593, \$730,705 and \$565,328 for the years ended June 30, 2019, 2018 and 2017, respectively. The following table sets forth our contractual obligations and commercial commitments as of June 30, 2019:

	Payment Due by Period			
	Total	Less than 1 Year	1-3 Years	More than 3 Years
Operating lease arrangements	\$ 1,849,387	\$ 1,056,045	\$ 793,342	\$ -
Short-term loans	2,184,996	2,184,996	-	-
Total	\$ 4,034,383	\$ 3,241,041	\$ 793,342	\$ -

Subsequent Events

The Company provided a loan of \$50,866 (RMB 350,000) with the term of twelve months, a loan of \$21,360 (RMB 150,000) with the term of one month and a loan of \$21,064 (RMB150,000) with the term of four months to CLPS Lihong on July 8, 2019, August 14, 2019 and September 9, 2019, respectively, with the annual interest rate of 5.655%.

On July 25, 2019, a written resolution of the board was passed and approved for Qiner to acquire a 20% interest in CLPS Hong Kong. The transaction is still in progress.

On July 31, 2019, the Company incorporated CLPS Hangzhou Co., Ltd., to develop the business in related areas.

On September 26, 2019, Qiner acquired an 80% interest in Ridik Pte. Ltd. located in Singapore from Srustijet Mishra and Routray Sibashis with the final purchase price of \$2,305,476 (3,120,000 Singapore dollars), in the form of cash of \$1,844,380 (2,496,000 Singapore dollars) and the Company's common shares valued at \$461,096 (624,000 Singapore dollars), respectively. The Company is still in the progress of evaluating the purchase price allocation.

Critical Accounting Policies

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

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

Revenue recognition

The Company provides a comprehensive range of IT services and solutions, which primarily are on a time-and-expense basis, or fixed-price basis.

Revenue is considered realizable and earned when all of the following criteria are met: persuasive evidence of a sales arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectability is reasonably assured.

Time-and-expense basis contracts

Revenues from time-and-expense basis contracts are recognized as the related services are rendered assuming all other basic revenue recognition criteria are met. Under time-and-expense basis contracts, the Company is reimbursed for actual hours incurred at pre-agreed negotiated hourly billing rates. Clients may terminate the contracts at any time before the work is completed but are obligated to pay the actual service hours incurred through the termination date at the contract billing rate.

Fixed-price basis contracts

Revenues from fixed-price customized solution contracts require the Company to perform services for systems design, planning and integrating based on customers' specific needs which requires significant production and customization. The required customization work period is generally less than one year. Upon delivery of the services, customer acceptance is generally required. In the same contract, the Company is generally required to provide post-contract customer support ("PCS") for a period from three months to one year ("PCS period") after the customized application is delivered. The type of service for PCS clause is generally not specified in the contract or stand-ready service on when-and-if-available basis.

Revenue is recognized using contract accounting in accordance with Accounting Standards Codification (“ASC”) 605-35-25. The revenue recognition for these contracts varies depending on the terms of the individual contracts, and may be recognized proportionally over the term of the contract. Revenue is recognized as the service is performed using the percentage of completion method of accounting, under which the total value of revenue is recognized on the basis of the percentage that total labor cost to date bears to the total expected labor costs. The Company considers labor time, the input measurement, is the best available indicator of the pattern and timing in which contract obligations are fulfilled. The Company has a long history of providing these services resulting in its ability to reasonably estimate the service hours expected to be incurred and the progress toward completion on each fixed-price customized contract based on the proportion of service hours incurred to date relative to total estimated service hours at completion. Estimated contract costs are based on the budgeted service hours, which are updated based on the progress toward completion on a monthly basis. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. To date, the Company has not incurred a material loss on any contracts.

Differences between the timing of billings and the recognition of revenues are recorded as unbilled receivables which is included in the prepayments, deposits and other assets, net or deferred revenues on the consolidated balance sheets.

Costs incurred in advance of revenue recognition arising from direct and incremental staff costs in respect of services provided under the fixed fee contracts according to the customer’s requirements prior to the delivery of services are recorded as deferred contract costs which is included in the prepayments, deposits and other assets, net, on the consolidated balance sheets. Such deferred contract costs will be recognized upon the recognition of the related revenues.

Revenue includes reimbursements of travel and out-of-pocket expense, with equivalent amounts of expense recorded in cost of revenues.

The Company is subject to value added tax (the “VAT”) that is imposed on and concurrent with the revenues earned for services provided in the PRC. The Company’s applicable value added tax rate is 6%. VAT are recorded as reduction of revenues when incurred.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are carried at net realizable value. An allowance for doubtful accounts is recorded in the period when loss is probable. The Company determines the adequacy of a reserve for doubtful accounts based on individual account analysis and historical collection trends. The Company establishes a provision for doubtful receivables when there is objective evidence that the Company may not be able to collect amounts due. The allowance is based on management’s best estimates of specific losses on individual customer exposures, as well as the historical trends of collections. Delinquent account balances are written-off against the allowance for doubtful accounts after management has determined that the likelihood of collection is not probable.

Business combination

The Company accounts for all business combinations under the purchase method of accounting in accordance with ASC 805, *Business Combinations*. The purchase method of accounting requires that the consideration transferred to be allocated to net assets including separately identifiable assets and liabilities the Company acquired, based on their estimated fair value. The consideration transferred in an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total of the cost of the acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the acquiree, the difference is recognized directly in earnings.

The determination and allocation of fair values to the identifiable net assets acquired, liabilities assumed and non-controlling interest is based on various assumptions and valuation methodologies requiring considerable judgment from management. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Company determines discount rates to be used based on the risk inherent in the acquiree's current business model and industry comparisons. Although the Company believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from forecasted amounts and the differences could be material.

Goodwill

Goodwill represents the excess of the consideration over the fair value of the net assets acquired at the date of acquisition. Goodwill is not amortized but rather tested for impairment at least annually at the reporting unit level by applying a fair-value based test in accordance with accounting and disclosure requirements for goodwill and other indefinite-lived intangible assets. This test is performed by management annually or more frequently if the Company believes impairment indicators are present. The Company had only one reporting unit (that also represented the Company's single operating segment) as of June 30, 2019 and 2018. Goodwill was allocated 100% to the reporting unit as of June 30, 2019 and 2018. The Company has the option to assess qualitative factors first to determine whether it is necessary to perform the two-step test in accordance with ASC 350-20, *Intangibles — Goodwill and Other*. If the Company believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative impairment test described above is required. Otherwise, no further testing is required. In the qualitative assessment, the Company considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations.

In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit to the fair value of the reporting unit based on estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss in general and administrative expenses.

No impairment loss was provided for the years ended June 30, 2019, 2018 and 2017.

Impairment of long-lived assets

The Company reviews its long-lived assets, other than goodwill including property and equipment and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Company measures impairment by comparing the carrying values of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amounts of the assets, the Company would recognize an impairment loss based on the excess of the carrying value over the fair value of the assets. Fair value is generally determined by discounting the cash flows expected to be generated by the asset, when the market prices are not readily available. The adjusted carrying amount of the asset becomes the new cost basis and depreciated over the asset's remaining useful live. Long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities for the purpose of the impairment testing.

No impairment loss was provided for the years ended June 30, 2019, 2018 and 2017.

Income taxes

The Company accounts for current income taxes in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized when temporary differences exist between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period including the enactment date. Valuation allowances are established, to reduce deferred tax assets to the amount expected to be realized, when it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized.

The Company accounts for uncertainties in income taxes in accordance with ASC 740. An uncertain tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the consolidated statements of comprehensive income (loss) in the period incurred. No significant penalties or interest relating to income taxes have been incurred during the years ended June 30, 2019, 2018 and 2017. All of the tax returns of the Company’s subsidiaries in China remain subject to examination by the tax authorities for five years from the date of filing through year 2023.

Warrants

The Company issued warrants to certain consultants and underwriters in May 2018 in connection with the closing of the IPO. The warrants carry a term of five years expiring in May 2023 and are exercisable during the five-year period. The warrants are classified as equity contracts and measured at the grant date fair value. Subsequent changes in fair value are not recognized as long as the contract continues to be classified in equity. The Company, with the assistance of an independent third party valuation firm, used the Black-Scholes pricing model to estimate the fair value of warrants. The determination of estimated fair value of warrants on the grant date is mainly affected by the Company’s stock price as well as assumptions regarding a number of subjective variables. These variables include the Company’s expected stock price volatility over the expected term of the awards, a risk-free interest rate and any expected dividends.

Share-based payment

Share awards issued to employees and directors, including employee stock option plans (“ESOPs”) and restricted share units (“RSUs”) are measured at fair value at the grant date. The Company, with the assistance of an independent third-party valuation firm, determined the fair value of the share options granted to employees. The Company uses the binomial lattice model to estimate the fair value of ESOPs, and uses the closing stock price at the grant date to measure the fair value of RSUs. The Company recognizes compensation expenses, net of forfeitures, using the accelerated method over the requisite service periods.

Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting ESOPs and RSUs’ forfeitures and records share-based compensation expense only for those awards that are expected to vest.

Recent Accounting Pronouncements

The Jumpstart Our Business Startups Act (“JOBS Act”) provides that an emerging growth company (“EGC”) as defined therein can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an EGC to delay adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company has adopted the extended transition period.

For detailed discussion on recent accounting pronouncements, please see Note 2 to our consolidated financial statements included elsewhere in this annual report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and senior management

The following table sets forth our executive officers and directors, their ages and the positions held by them, as of the date of this Annual Report:

Name	Age	Position
Xiao Feng Yang	55	Chairman, President and Director
Raymond Ming Hui Lin	54	Chief Executive Officer and Director
Tian van Acken	49	Chief Financial Officer
Li Li	43	Chief Operating Officer
Jin He Shao ⁽¹⁾⁽⁴⁾	51	Independent Director
Kewei Huang	51	Independent Director
Kathryn Amooi ⁽³⁾	64	Independent Director
Kee Chong Seng ⁽²⁾	66	Independent Director

- (1) Chair of the Audit Committee.
- (2) Chair of the Compensation Committee.
- (3) Chair of the Nominating Committee.
- (4) Audit Committee Financial Expert.

Xiao Feng Yang is the chairman, president and director of the Company. Mr. Yang has over 20 years of executive management and operational experience in the IT services business. From October 2012 to present, Mr. Yang served as chairman and president of ChinaLink. From April 2009 to October 2012, Mr. Yang served as deputy general manager of ADP China managing the service operations of HR BPO in China. Prior to 2002, Mr. Yang was the Human Resource Director of Phillips. Mr. Yang graduated from Tongji University, Shanghai, China, with a Bachelor's degree in electrical engineering. Mr. Yang received his MBA degree both from Shanghai University of Finance and Webster University (US).

Raymond Ming Hui Lin, is the chief executive officer and director of the Company. Mr. Lin joined CLPS in February 2009 as chief executive officer. From January 2008 to January 2009, Mr. Lin was a business consultant of VanceInfo. After VanceInfo acquired A-IT Software (Shanghai) Co. Ltd., Mr. Lin acted as the general manager of A-IT Software (Shanghai) Co. Ltd. from April 2002 to December 2007. Mr. Lin is an IT outsourcing service veteran with a deep understanding of IT talent acquisition, training, development and service delivery. He has developed and pioneered the first kind of training programs for mainframe and VisionPLUS (a credit card processing solution) in China, which has made CLPS as one of the largest mainframe resource powerhouse and the VisionPLUS project team in Greater China. In 2015, Mr. Lin became the MSE senior advisor in Fudan University, Shanghai, China.

Tian van Acken Ms. Tian van Acken is the chief financial officer of the Company. From December 2015 to September 2017, Ms. van Acken served as chief financial officer at ec+ Communication Corporation. From September 2011 to December 2015, Ms. van Acken held chief financial officer positions at various start-up companies in China. From March 2006 to September 2011, Ms. van Acken served as Greater China chief financial officer at Lowe China, subsidiary of Lowe Worldwide (Interpublic Group of Companies) in China. From 1996 to 2006, Ms. van Acken held various managerial financial positions at Siegfried Resources LLC in New York, Highland Capital Partners and PricewaterhouseCoopers in Boston, respectively. Ms. van Acken holds an MBA degree in Finance and Accounting from Rochester Institute of Technology. She is a Chartered Financial Analyst and a certified public accountant licensed in the State of Massachusetts.

Li Li is the chief operating officer of the Company. Mr. Li was appointed as the COO in June 2019. Mr. Li has 20 years of professional and IT experience in the financial and IT industry. From June 2017 to June 2019, Mr. Li served as Director, Head of Business Analysis & Quality Engineering at a major credit card payment processing company in China. From July 2013 to June 2017, Mr. Li served as Executive Manager, Head of Business Solution and Quality Assurance at Commonwealth Bank of Australia China. Mr. Li graduated from Tianjin University, Tianjin China, with a Bachelor's degree in Computer Science. Mr. Li holds MSE degree from Fu Dan University, Shanghai China.

Jin He Shao is an independent director of the Company. From January 2002 to present, Mr. Shao has been a partner at Shanghai Huajin Accounting & Consulting Professional Services. From August 1995 to December 2001, he served as senior tax manager at Phillips (China) Investment Co., Ltd. Mr. Shao received a joint MBA degree from Shanghai University of Finance & Economics and The Webster University. Mr. Shao holds the PRC equivalent of the CPA license. In addition, Mr. Shao attended Shanghai Grain College where he majored in finance and accounting, and STV University where he majored in auditing.

Kewei Huang is an independent director of the Company. From September 2014 to present, Mr. Huang has held the office of the chief technology officer at Moxian, Inc. (MOXC), a Nasdaq listed company. In 1995, he received a PhD degree in component based technologies from the University of New South Wales. In addition, Mr. Huang holds a Bachelor's degree in English from National University of Singapore and an MBA degree from Preston University.

Kathryn Amooi is an independent director of the Company. Ms. Amooi has held various positions at Automatic Data Processing (ADP), LLC, a human capital management company, including as Senior Vice President from May 2011 to December 2014, as Senior Division Vice President from May 2008 to June 2011, and Managing Director/General Manager from June 2005 to June 2008 at Automatic Data Processing (ADP) China, LLC. Ms. Amooi attended University of Southern California.

Kee Chong Seng is an independent director of the Company. Mr. Kee spent a career in the information technology industry, most recently as an operation manager at Citibank from 2003 until his full retirement in 2015.

None of the events listed in Item 401(f) of Regulation S-K has occurred during the past ten years that is material to the evaluation of the ability or integrity of any of our directors, director nominees or executive officers.

Limitation on Liability and Other Indemnification Matters

The Companies Law does not limit the extent to which Memorandum and Articles of Association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our Memorandum and Articles of Association permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty of such directors or officers willful default of fraud. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation.

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

B. Compensation

Executive Compensation

The following table shows the annual compensation paid by us for the years ended June 30, 2019, 2018, and 2017.

Name/principal position	Year	Salary	Equity Compensation	All Other Compensation	Total Paid
Xiao Feng Yang, Chairman and President ⁽¹⁾	2019	\$ 102,827	\$ —	\$ —	\$ 102,827
	2018	\$ 76,338	\$ —	\$ —	\$ 76,338
	2017	\$ 51,470	\$ —	\$ 585,402	\$ 636,872
Raymond Ming Hui Lin, CEO and Director ⁽²⁾	2019	\$ 104,718	\$ —	\$ —	\$ 104,718
	2018	\$ 57,225	\$ —	\$ —	\$ 57,225
	2017	\$ 37,379	\$ —	\$ 585,402	\$ 622,781
Tian van Acken, CFO ⁽³⁾	2019	\$ 192,733	\$ —	\$ —	\$ 192,733
	2018	\$ 69,758	\$ —	\$ —	\$ 69,758
	2017	\$ —	\$ —	\$ —	\$ —

(1) Appointed Chairman and President effective as of December 9, 2017. All other compensation amounts represent cash dividend payments in 2016 and 2017.

(2) Appointed Chief Executive Officer effective as of December 9, 2017. All other compensation amounts represent cash dividend payments in 2016 and 2017.

(3) Appointed Chief Financial Officer effective as of December 9, 2017.

Under Chinese law, we may only terminate employment agreements without cause and without penalty by providing notice of non-renewal one month prior to the date on which the employment agreement is scheduled to expire. If we fail to provide this notice or if we wish to terminate an employment agreement in the absence of cause, then we are obligated to pay the employee one month's salary for each year we have employed the employee. We are, however, permitted to terminate an employee for cause without penalty to our company, where the employee has committed a crime or the employee's actions or inactions have resulted in a material adverse effect to us.

Compensation Committee Interlocks and Insider Participation

None of our officers currently serves, or has served during the last completed fiscal year, on the compensation committee or board of directors of any other entity that has one or more officers serving as a member of our board of directors.

Outstanding Equity Incentive Awards at Fiscal Year-End

We have adopted a 2017 Equity Incentive Plan (the "2017 Plan"). The 2017 Plan is a stock-based compensation plan that provides for discretionary grants of, among others, stock options, stock awards and stock unit awards to key employees and directors of the Company. The purpose of the 2017 Plan is to recognize contributions made to our company and its subsidiaries by such individuals and to provide them with additional incentive to achieve the objectives of our Company. The Company granted an aggregate of 671,469 restricted shares ("RSUs") to key employees and directors under the 2017 Plan on July 12, 2018. No grants were made in fiscal 2018. The following is a summary of the 2017 Plan and is qualified by the full text of the 2017 Plan.

Administration. The 2017 Plan will be administered by our board of directors, or, once constituted, the Compensation Committee of the board of directors (we refer to body administering the 2017 Plan as the "Committee").

Number of Shares of Common Shares. The number of common shares that may be issued under the 2017 Plan is 2,210,000. Shares issuable under the 2017 Plan may be authorized but unissued shares or treasury shares. If there is a lapse, forfeiture, expiration, termination or cancellation of any award made under the 2017 Plan for any reason, the shares subject to the award will again be available for issuance. Any shares subject to an award that are delivered to us by a participant, or withheld by us on behalf of a participant, as payment for an award or payment of withholding taxes due in connection with an award will not again be available for issuance, and all such shares will count toward the number of shares issued under the 2017 Plan. The number of common shares issuable under the 2017 Plan is subject to adjustment, in the event of any reorganization, recapitalization, stock split, stock distribution, merger, consolidation, split-up, spin-off, combination, subdivision, consolidation or exchange of shares, any change in the capital structure of the company or any similar corporate transaction. In each case, the Committee has the discretion to make adjustments it deems necessary to preserve the intended benefits under the Plan. No award granted under the 2017 Plan may be transferred, except by will, the laws of descent and distribution.

Eligibility. All key employees and directors of the Company are eligible to receive awards under the 2017 Plan.

Awards to Participants. The 2017 Plan provides for discretionary awards of, among others, stock options, stock awards and stock unit awards to participants. Each award made under the Plan will be evidenced by a written award agreement specifying the terms and conditions of the award as determined by the Committee in its sole discretion, consistent with the terms of the 2017 Plan.

Stock Options. The Committee has the discretion to grant non-qualified stock options or incentive stock options to participants and to set the terms and conditions applicable to the options, including the type of option, the number of shares subject to the option and the vesting schedule; each option will expire ten years from the date of grant and no dividend equivalents may be paid with respect to stock options. The aggregate maximum number of shares as to which a Key Employee may receive Stock Options and Stock Appreciation Rights in any calendar year is 100,000, except that the aggregate maximum number of shares as to which a Key Employee may receive Stock Options and Stock Appreciation Rights in the calendar year in which such Key Employee begins employment with the Company or its Subsidiaries is 250,000.

Stock Awards. The Committee has the discretion to grant stock awards to participants. Shares granted under the 2017 Plan will be effective and exercisable as of the Company's completion of our initial public offering of its securities and other terms, restrictions and qualifications that may be set forth in the individual grant agreements. Stock awards will consist of common shares granted without any consideration from the participant or shares sold to the participant for appropriate consideration as determined by the Board. The number of shares awarded to each participant, and the restrictions, terms and conditions of the award, will be at the discretion of the Committee. Subject to the restrictions, a participant will be a shareholder with respect to the shares awarded to him or her and will have the rights of a shareholder with respect to the shares, including the right to vote the shares and receive dividends on the shares; provided that dividends otherwise payable on any performance-based stock award will be held by us and will be paid to the holder of the stock award only to the extent the restrictions on such stock award lapse, and the Committee in its discretion can accumulate and hold such amounts payable on any other stock awards until the restrictions on the stock award lapse. The aggregate maximum number of shares that may be used for Stock Awards, Stock Bonus Awards and or Stock Unit Awards that may be granted to any Key Employee in any calendar year is 250,000, or, in the event the award is settled in cash, an amount equal to the fair market value of such number of shares on the date on which the award is settled.

Payment for Stock Options and Withholding Taxes. The Committee may make one or more of the following methods available for payment of any award, including the exercise price of a stock option, and for payment of the minimum required tax obligation associated with an award: (i) cash; (ii) cash received from a broker-dealer to whom the holder has submitted an exercise notice together with irrevocable instructions to deliver promptly to us the amount of sales proceeds from the sale of the shares subject to the award to pay the exercise price or withholding tax; (iii) by directing us to withhold common shares otherwise issuable in connection with the award having a fair market value equal to the amount required to be withheld; and (iv) by delivery of previously acquired common shares that are acceptable to the Committee and that have an aggregate fair market value on the date of exercise equal to the exercise price or withholding tax, or certification of ownership by attestation of such previously acquired shares.

Amendment of Award Agreements; Amendment and Termination of the Plan; Term of the Plan. The Committee may amend any award agreement at any time, provided that no amendment may adversely affect the right of any participant under any agreement in any material way without the written consent of the participant, unless such amendment is required by applicable law, regulation or stock exchange rule. The Board may terminate, suspend or amend the 2017 Plan, in whole or in part, from time to time, without the approval of the shareholders, unless such approval is required by applicable law, regulation or stock exchange rule, and provided that no amendment may adversely affect the right of any participant under any outstanding award in any material way without the written consent of the participant, unless such amendment is required by applicable law, regulation or rule of any stock exchange on which the shares are listed. Notwithstanding the foregoing, neither the Plan nor any outstanding award agreement can be amended in a way that results in the repricing of a stock option. Repricing is broadly defined to include reducing the exercise price of a stock option or cancelling a stock option in exchange for cash, other stock options with a lower exercise price or other stock awards. No awards may be granted under the 2017 Plan on or after the tenth anniversary of the effective date of the 2017 Plan.

On July 12, 2018, the Board of Directors approved, upon a recommendation of the Compensation Committee, several restricted stock grants to the members of executive management and the Board of the Company pursuant to the terms of the Plan. Specifically, the Company granted an aggregate of 671,469 RSUs to key employees and directors under the Plan. No grants were made in fiscal 2018. RSUs granted to key employees and directors generally have a term of three years, but are subject to earlier termination in connection with termination of continuous service to the Company. RSUs are valid for a period of 10 years from July 12, 2018 to July 11, 2028. RSUs vest one-third per year over a three-year period, with the first one third vesting on the grant date. As at the grant date of July 12, 2018, the weighted-average fair value per share was \$12.22 and the estimated total fair value of the restricted shares granted was \$8.2 million.

We have adopted a 2019 Equity Incentive Plan (the “2019 Plan”). The 2019 Plan is a stock-based compensation plan that provides for discretionary grants of, among others, stock options, stock awards and stock unit awards to key employees and directors of the Company. The purpose of the 2019 Plan is to recognize contributions made to our company and its subsidiaries by such individuals and to provide them with additional incentive to achieve the objectives of our Company. The Company has granted no shares under the 2019 Plan yet. The following is a summary of the 2019 Plan and is qualified by the full text of the 2019 Plan.

Administration. The 2019 Plan will be administered by our board of directors, or, once constituted, the Compensation Committee of the board of directors (we refer to body administering the Plan as the “Committee”).

Number of Shares of Common Shares. The number of common shares that may be issued under the 2019 Plan is 2,200,000. Shares issuable under the 2019 Plan may be authorized but unissued shares or treasury shares. If there is a lapse, forfeiture, expiration, termination or cancellation of any award made under the 2019 Plan for any reason, the shares subject to the award will again be available for issuance. Any shares subject to an award that are delivered to us by a participant, or withheld by us on behalf of a participant, as payment for an award or payment of withholding taxes due in connection with an award will not again be available for issuance, and all such shares will count toward the number of shares issued under the Plan. The number of common shares issuable under the Plan is subject to adjustment, in the event of any reorganization, recapitalization, stock split, stock distribution, merger, consolidation, split-up, spin-off, combination, subdivision, consolidation or exchange of shares, any change in the capital structure of the company or any similar corporate transaction. In each case, the Committee has the discretion to make adjustments it deems necessary to preserve the intended benefits under the 2019 Plan. No award granted under the 2019 Plan may be transferred, except by will, the laws of descent and distribution.

Eligibility. Selected employees, directors, and consultants of the Company are eligible to receive awards under the 2019 Plan.

Awards to Participants. The 2019 Plan provides for discretionary awards of, among others, stock options, stock awards, stock unit awards, or SAR to participants. Each award made under the 2019 Plan will be evidenced by a written award agreement specifying the terms and conditions of the award as determined by the Committee in its sole discretion, consistent with the terms of the 2019 Plan.

Stock Options. The Committee has the discretion to grant non-qualified stock options or incentive stock options to participants and to set the terms and conditions applicable to the options, including the type of option, the number of shares subject to the option and the vesting schedule; each option will expire ten years from the date of grant and no dividend equivalents may be paid with respect to stock options. The aggregate maximum number of shares as to which a Key Employee may receive Stock Options and Stock Appreciation Rights in any calendar year is 200,000, except that the aggregate maximum number of shares as to which a Key Employee may receive Stock Options and Stock Appreciation Rights in the calendar year in which such Key Employee begins employment with the Company or its Subsidiaries is 350,000.

Stock Awards. The Committee has the discretion to grant stock awards to participants. Shares granted under the 2019 Plan will be effective upon issuance, and other terms, restrictions and qualifications that may be set forth in the individual grant agreements. Stock awards will consist of common shares granted without any consideration from the participant or shares sold to the participant for appropriate consideration as determined by the Board. The number of shares awarded to each participant, and the restrictions, terms and conditions of the award, will be at the discretion of the Committee. Subject to the restrictions, a participant will be a shareholder with respect to the shares awarded to him or her and will have the rights of a shareholder with respect to the shares, including the right to vote the shares and receive dividends on the shares; provided that dividends otherwise payable on any performance-based stock award will be held by us and will be paid to the holder of the stock award only to the extent the restrictions on such stock award lapse, and the Committee in its discretion can accumulate and hold such amounts payable on any other stock awards until the restrictions on the stock award lapse.

Stock Unit Awards. The Committee has the discretion to grant stock unit awards to participants. Each stock unit award shall entitle the participant to receive, on the date or the occurrence of an event (including the attainment of performance goals), a share or cash equal to the fair market value of a share on the date of such event as provided in the stock unit award agreement. The number of share unit awards awarded to each participant, and the restrictions, terms and conditions of the award, will be at the discretion of the Committee. Unless otherwise set forth in the stock unit agreement, the participant receiving a stock unit award shall have no rights of a shareholder of the Company, including voting or dividends or other distributions rights, with respect to any stock units prior to the date they are settled in Shares.

SARs. The Committee may grant SARs to participants. Upon exercise, an SAR entitles the participant to receive from the Company the number of shares having an aggregate fair market value equal to the excess of the fair market value of one share as of the date on which the SAR is exercised over the exercise price, multiplied by the number of shares with respect to which the SAR is being exercised. The Committee, in its discretion, shall be entitled to cause the Company to elect to settle any part or all of its obligations arising out of the exercise of an SAR by the payment of cash in lieu of all or part of the shares it would otherwise be obligated to deliver in an amount equal to the fair market value of such shares on the date of exercise.

Payment for Stock Options and Withholding Taxes. The Committee may make one or more of the following methods available for payment of any award, including the exercise price of a stock option, and for payment of the minimum required tax obligation associated with an award: (i) cash; (ii) cash received from a broker-dealer to whom the holder has submitted an exercise notice together with irrevocable instructions to deliver promptly to us the amount of sales proceeds from the sale of the shares subject to the award to pay the exercise price or withholding tax; (iii) by directing us to withhold common shares otherwise issuable in connection with the award having a fair market value equal to the amount required to be withheld; and (iv) by delivery of previously acquired common shares that are acceptable to the Committee and that have an aggregate fair market value on the date of exercise equal to the exercise price or withholding tax, or certification of ownership by attestation of such previously acquired shares.

Amendment of Award Agreements; Amendment and Termination of the Plan; Term of the Plan. The Committee may amend any award agreement at any time, provided that no amendment may adversely affect the right of any participant under any agreement in any material way without the written consent of the participant, unless such amendment is required by applicable law, regulation or stock exchange rule. The Board may terminate, suspend or amend the 2019 Plan, in whole or in part, from time to time, without the approval of the shareholders, unless such approval is required by applicable law, regulation or stock exchange rule, and provided that no amendment may adversely affect the right of any participant under any outstanding award in any material way without the written consent of the participant, unless such amendment is required by applicable law, regulation or rule of any stock exchange on which the shares are listed. Notwithstanding the foregoing, neither the Plan nor any outstanding award agreement can be amended in a way that results in the repricing of a stock option. Repricing is broadly defined to include reducing the exercise price of a stock option or cancelling a stock option in exchange for cash, other stock options with a lower exercise price or other stock awards. No awards may be granted under the 2019 Plan on or after the tenth anniversary of the effective date of the 2019 Plan.

Director Compensation

All directors hold office until the next annual meeting of shareholders until their successors have been duly elected and qualified. There are no family relationships among our directors or executive officers. Officers are elected by and serve at the discretion of the Board of Directors. Employee directors do not receive any compensation for their services. Non-employee directors are entitled to receive \$1,500 per month for serving as directors and may receive option grants from our company.

Employment Agreements

Xiao Feng Yang Employment Agreement

On December 9, 2017, we entered into an employment agreement with Xiao Feng Yang pursuant to which he agreed to serve as our President. The agreement provides for an annual base salary of RMB144,000 and HK\$566,472 (a total of approximately USD94,100) payable in accordance with the Company's ordinary payroll practices. Under the terms of the agreement, commencing with the year ended June 30, 2018, Mr. Yang will be entitled to receive an annual cash bonus the extent and timing of which are to be determined by the Company's Compensation Committee; Mr. Yang is also entitled to reimbursement of reasonable expenses, and vacation, sick leave, health and other benefits customary to the agreements of this nature. The term of the agreement shall expire on December 8, 2022, which term will automatically extend for additional 12 month periods unless a party to the agreement terminates it upon 90 days' notice. If the executive's employment with the Company is terminated for any reason, the Company will pay to such executive any unpaid portion of his salary through the date of his termination, and any unpaid bonus through the date of termination, as well as any unpaid or unused portions of his benefits under the agreement. If his employment is terminated at our election without "cause" (as defined in the agreement), which requires 30 days' advanced notice, or by him for "good reason" (as defined in the agreement), Mr. Yang shall be entitled to receive severance payments equal to 9 months' of his base salary and a pro rata portion of his target annual bonus for the year when termination occurs. Mr. Yang has agreed not to compete with us for 9 months after the termination of his employment; he also executed certain non-solicitation, confidentiality and other covenants customary for agreements of this nature.

Raymond Ming Hui Lin Employment Agreement

On December 9, 2017, we entered into an employment agreement with Raymond Ming Hui Lin pursuant to which he agreed to serve as our Chief Executive Officer. The agreement provides for an annual base salary of RMB144,000 and HK\$389,880 (a total of approximately USD71,400) payable in accordance with the Company's ordinary payroll practices. Under the terms of the agreement, commencing with the year ended June 30, 2018, Raymond Ming Hui Lin will be entitled to receive an annual cash bonus the extent and timing of which are to be determined by the Company's Compensation Committee; he is also entitled to reimbursement of reasonable expenses, and vacation, sick leave, health and other benefits customary to the agreements of this nature. The term of the agreement shall expire on December 8, 2022, which term will automatically extend for additional 12 month periods unless a party to the agreement terminates it upon 90 days' notice. If the executive's employment with the Company is terminated for any reason, the Company will pay to such executive any unpaid portion of his salary through the date of his termination, and any unpaid bonus through the date of termination, as well as any unpaid or unused portions of his benefits under the agreement. If his employment is terminated at our election without "cause" (as defined in the agreement), which requires 30 days' advanced notice, or by him for "good reason" (as defined in the agreement), Raymond Ming Hui Lin shall be entitled to receive severance payments equal to 9 months' of his base salary and a pro rata portion of his target annual bonus for the year when termination occurs. Raymond Ming Hui Lin has agreed not to compete with us for 9 months after the termination of his employment; he also executed certain non-solicitation, confidentiality and other covenants customary for agreements of this nature.

Tian van Acken Employment Agreement

On December 9, 2017, we entered into an employment agreement with Tian van Acken pursuant to which she agreed to serve as our Chief Financial Officer. The agreement provides for an annual base salary of RMB144,000 and HK\$558,000 (a total of approximately USD93,010) payable in accordance with the Company's ordinary payroll practices. Under the terms of the agreement, commencing with the year ended June 30, 2018, Ms. van Acken will be entitled to receive an annual cash bonus the extent and timing of which are to be determined by the Company's Compensation Committee; she is also entitled to reimbursement of reasonable expenses, and vacation, sick leave, health and other benefits customary to the agreements of this nature. The term of the agreement shall expire on December 8, 2022, which term will automatically extend for additional 12 month periods unless a party to the agreement terminates it upon 90 days' notice. If the executive's employment with the Company is terminated for any reason, the Company will pay to such executive any unpaid portion of her salary through the date of her termination, and any unpaid bonus through the date of termination, as well as any unpaid or unused portions of her benefits under the agreement. If her employment is terminated at our election without "cause" (as defined in the agreement), which requires 30 days' advanced notice, or by her for "good reason" (as defined in the agreement), Tian van Acken shall be entitled to receive severance payments equal to 9 months' of her base salary and a pro rata portion of her target annual bonus for the year when termination occurs. Tian van Acken has agreed not to compete with us for 9 months after the termination of her employment; she also executed certain non-solicitation, confidentiality and other covenants customary for agreements of this nature.

C. Board Practices

Composition of Board; Risk Oversight

Our Board of Directors presently consists of 5 directors. Pursuant to our Memorandum and Articles of Association, our officers will be elected by and serve at the discretion of the board. Our directors are not subject to a term of office and hold office until such time as they resign or are removed from office by resolution of our shareholders. A director will be removed from office automatically if, among other things, the director becomes bankrupt or makes any arrangement or composition with his creditors, or becomes physically or mentally incapable of acting as director. Except as noted above, there are no family relationships between any of our executive officers and directors. Officers are elected by, and serve at the discretion of, the board of directors. Our board of directors shall hold meetings on at least a quarterly basis.

Under the NASDAQ rules we are only required to maintain a board of directors comprised of at least 50% independent directors, and an audit committee of at least two members, comprised solely of independent directors who also meet the requirements of Rule 10A-3 under the Securities Exchange Act of 1934. There are no membership qualifications for directors. Further, there are no share ownership qualifications for directors unless so fixed by us in a general meeting. There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

There is no formal requirement under the Company's memorandum and articles of association mandating that we hold an annual meeting of our shareholders. However, notwithstanding the foregoing, we intend to hold such annual meetings to, among other things, elect our directors. We plan to hold our next annual shareholders meeting on the first quarter of 2020.

While it may be deemed a “controlled company” under the NASDAQ Marketplace Rules (specifically, as defined in Rule 5615(c)), the Company does not intend to avail itself of the corporate governance exemptions afforded to a controlled company under the NASDAQ Marketplace Rules. Similarly, the Company intends to comply with all applicable NASDAQ corporate governance requirements irrespective of its “foreign private issuer” status.

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

Director Independence

Our board has reviewed the independence of our directors, applying the NASDAQ independence standards. Based on this review, the board determined that each of Kathryn Amooi, Kewei Huang, Jin He Shao, and Kee Chong Seng are “independent” within the meaning of the NASDAQ rules. In making this determination, our board considered the relationships that each of these non-employee directors has with us and all other facts and circumstances our board deemed relevant in determining their independence. As required under applicable NASDAQ rules, we anticipate that our independent directors will meet on a regular basis as often as necessary to fulfill their responsibilities, including at least annually in executive session without the presence of non-independent directors and management.

Board Committees

Currently, three committees have been established under the board: the Audit Committee, the Compensation Committee and the Nominating Committee.

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

Audit Committee

The Audit Committee will be responsible for, among other matters:

- appointing, compensating, retaining, evaluating, terminating, and overseeing our independent registered public accounting firm;
- discussing with our independent registered public accounting firm the independence of its members from its management;
- reviewing with our independent registered public accounting firm the scope and results of their audit;
- approving all audit and permissible non-audit services to be performed by our independent registered public accounting firm;
- overseeing the financial reporting process and discussing with management and our independent registered public accounting firm the interim and annual financial statements that we file with the SEC;
- reviewing and monitoring our accounting principles, accounting policies, financial and accounting controls, and compliance with legal and regulatory requirements;

- coordinating the oversight by our board of directors of our code of business conduct and our disclosure controls and procedures
- establishing procedures for the confidential and or anonymous submission of concerns regarding accounting, internal controls or auditing matters; and
- reviewing and approving related-party transactions.

Our Audit Committee consists of Kathryn Amooi, Kewei Huang, Jin He Shao, and Kee Chong Seng, with Mr. Shao serving as chair of the Audit Committee. Our board has affirmatively determined that each of the members of the Audit Committee meets the definition of “independent director” for purposes of serving on an Audit Committee under Rule 10A-3 of the Exchange Act and NASDAQ rules. In addition, our board has determined that Mr. Shao qualifies as an “audit committee financial expert” as such term is currently defined in Item 407(d)(5) of Regulation S-K and meets the financial sophistication requirements of the NASDAQ rules.

Compensation Committee

The Compensation Committee will be responsible for, among other matters:

- reviewing and approving, or recommending to the board of directors to approve the compensation of our CEO and other executive officers and directors;
- reviewing key employee compensation goals, policies, plans and programs;
- administering incentive and equity-based compensation;
- reviewing and approving employment agreements and other similar arrangements between us and our executive officers; and
- appointing and overseeing any compensation consultants or advisors.

Our Compensation Committee consists of Kathryn Amooi, Kewei Huang, Jin He Shao, and Kee Chong Seng, with Mr. Kee serving as chair of the Compensation Committee. Our board has affirmatively determined that each of the members of the Compensation Committee meets the definition of “independent director” for purposes of serving on Compensation Committee under NASDAQ rules.

Nominating Committee

The Nominating Committee will be responsible for, among other matters:

- selecting or recommending for selection candidates for directorships;
- evaluating the independence of directors and director nominees;
- reviewing and making recommendations regarding the structure and composition of our board and the board committees;
- developing and recommending to the board corporate governance principles and practices;
- reviewing and monitoring the Company’s Code of Business Conduct and Ethics; and
- overseeing the evaluation of the Company’s management

Our Nominating Committee consists of consists of Kathryn Amooi, Kewei Huang, Jin He Shao, and Kee Chong Seng, with Ms. Amooi serving as chair of the Nominating Committee. Our board has affirmatively determined that each of the members of the Nominating Committee meets the definition of “independent director” for purposes of serving on a Nominating Committee under NASDAQ rules.

Duties of Directors

Under Cayman Islands law, our directors have a duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. We have the right to seek damages if a duty owed by our directors is breached. The functions and powers of our board of directors include, among others:

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

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

The directors may receive such remuneration as our board of directors may determine from time to time. Each director is entitled to be repaid or prepaid for all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred in attending meetings of our board of directors or committees of our board of directors or shareholder meetings or otherwise in connection with the discharge of his or her duties as a director. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors. Our board of directors may exercise all the powers of the company to borrow money and to mortgage or charge our undertakings and property or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party.

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

D. Employees

The table below provides information as to the total number of employees at the end of the last three fiscal years. We have no contracts or collective bargaining agreements with labor unions and have never experienced work stoppages due to labor dispute. We consider our relations with our employees to be good.

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Number of Employees	1,248	1,655	2,085

E. Share Ownership

See Item 7 below.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major shareholders

The following table sets forth certain information regarding beneficial ownership of our shares by each person who is known by us to beneficially own more than 5% of our shares. The table also identifies the share ownership of each of our directors, each of our named executive officers, and all directors and officers as a group. Except as otherwise indicated, the shareholders listed in the table have sole voting and investment powers with respect to the shares indicated. Our major shareholders do not have different voting rights than any other holder of our shares.

We have determined beneficial ownership in accordance with the rules of the SEC. Under such rules, beneficial ownership includes any shares over which the individual has sole or shared voting power or investment power as well as any shares that the individual has the right to subscribe for within 60 days of September 18, 2018 through the exercise of any warrants or other rights. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power or the power to receive the economic benefit with respect to all common shares that they beneficially own, subject to applicable community property laws. None of the stockholders listed in the table are a broker-dealer or an affiliate of a broker dealer. None of the stockholders listed in the table are located in the United States and none of the common shares held by them are located in the United States. Applicable percentage ownership is based on 13,913,201 common shares outstanding as of October 11, 2019. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o CLPS Incorporation, c/o 2nd Floor, Building 18, Shanghai Pudong Software Park, 498 Guoshoujing Road, Pudong, Shanghai 201203, People's Republic of China.

Name of Beneficial Owner	Common Shares	Ownership% (1)
Xiao Feng Yang (2)(7)	5,049,607	36.29%
Raymond Ming Hui Lin (3)(6)(7)	5,073,604	36.47%
Tian van Acken (4)(6)	73,607	*
Jin He Shao (5)(7)	1,000	*
Kewei Huang (5)(7)	1,000	*
Kathryn Amooi (5)(7)	1,000	*
All directors and executive officers as a group (6 persons)	10,199,818	73.31%
Qinrui Ltd. (2)	4,976,000	35.76%
Qinhui Ltd. (3)	4,999,996	35.94%
5% or greater beneficial owners as a group	9,975,996	71.70%

* Less than 1%.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the common shares or the power to receive the economic benefit of the common shares.
- (2) A British Virgin Islands corporation with the mailing address of c/o Vistra Corporate Services Centre, Wickham's Cay II, Road Town, Tortola, VG 1110, British Virgin Islands, with Xiao Feng Yang as its sole shareholder. As such, Mr. Yang is deemed to be the owner of all shares of the Company held by this entity. Also includes the vested portion of the restricted stock granted dated as of July 12, 2018. The total grant of 220,823 common shares vests in three equal installments, with the first installment vesting upon grant, and the second and third – on the first and second anniversary of the grant.
- (3) A British Virgin Islands corporation with the mailing address of c/o Vistra Corporate Services Centre, Wickham's Cay II, Road Town, Tortola, VG 1110, British Virgin Islands, with Raymond Ming Hui Lin as its sole shareholder. As such, Mr. Lin is deemed to be the owner of all shares of the Company held by this entity. Also includes the vested portion of the restricted stock granted dated as of July 12, 2018. The total grant of 220,823 common shares vests in three equal installments, with the first installment vesting upon grant, and the second and third – on the first and second anniversary of the grant.
- (4) Represents vested portion of the restricted stock granted dated as of July 12, 2018. The total grant of 220,823 common shares vests in three equal installments, with the first installment vesting upon grant, and the second and third – on the first and second anniversary of the grant.
- (5) Represents vested portion of the restricted stock granted dated as of July 12, 2018. The total grant of 3,000 common shares vests in three equal installments, with the first installment vesting upon grant, and the second and third – on the first and second anniversary of the grant.
- (6) Executive officer.
- (7) Director.

As of September 18, 2018, there were 27 holders of record entered in our share register, of which no holders were U.S. residents. The number of individual holders of record is based exclusively upon our share register and does not address whether a share or shares may be held by the holder of record on behalf of more than one person or institution who may be deemed to be the beneficial owner of a share or shares in our company. To our knowledge, no other shareholder beneficially owns more than 5% of our shares. Our company is not owned or controlled directly or indirectly by any government or by any corporation or by any other natural or legal person severally or jointly. Our major shareholders do not have any special voting rights.

B. Related Party Transactions

The following is a description of transactions since July 1, 2014, in which the amount involved in the transaction exceeded or will exceed the lesser of \$120,000 or one percent of the average of our total assets as at the year-end for the last two completed fiscal years ended June 30, 2019 and 2018, and to which any of our directors, executive officers or beneficial holders of more than 5% of our capital stock, or any immediate family member of, or person sharing the household with, any of these individuals, had or will have a direct or indirect material interest.

Reorganization agreement with our shareholders

On November 2, 2017, the controlling shareholders transferred their 100% ownership interest in CLPS Shanghai to CLPS QC and Qiner, which are 100% owned by Qinheng and CLPS. On October 31, 2017, the controlling shareholders transferred 100% of their equity interests in Qiner to CLPS. The considerations for these transfers are at a nominal amount.

Other related party transactions:

The balances due to and due from related parties were as follows:

	<u>As of June 30,</u>	
	<u>2019</u>	<u>2018</u>
Due from related parties:		
Non-controlling interest shareholder of Judge China	\$ 212,736	\$ 131,321
Mr. Raymond Ming Hui Lin, CEO of the Company	17,804	-
Total	<u>\$ 230,540</u>	<u>\$ 131,321</u>
Due to related parties		
Non-controlling shareholder of JQ	\$ -	\$ 45,615
Mr. Raymond Ming Hui Lin, CEO of the Company	-	162,727
Total	<u>\$ -</u>	<u>\$ 208,342</u>

Due from related parties mainly represents the expenses paid on behalf of non-controlling interest shareholder of Judge China and advances to the Company's CEO.

Due to related parties mainly represents the unpaid bonus, dividends, wages and other benefit to the Company's CEO and advances from non-controlling shareholder of JQ.

On June 22, 2018, the Company entered into a revolving credit facility with China Merchants Bank ("CMB Credit Facility") which permits the Company to borrow up to approximately \$1,543,115 (RMB 10,000,000) for the period from July 11, 2018 to July 10, 2019 with an interest rate at 5.655% per annum. The CMB Credit Facility is guaranteed by the CEO, the wife of the CEO, Chairman, and the wife of Chairman of the Company, and Shanghai Small and Medium-sized Enterprises Policy Financing Guarantee Fund Management Centre as joint guarantors. Under the credit facility, the Company borrowed a total of \$1,543,115 which was due between August 9, 2019 and January 9, 2020.

During the year ended June 30, 2019, the Company provided several loans with the total amount of \$820,982 to CLPS Lihong which were all repaid as of June 30, 2019. The total interest income of the loan is \$33,096 for the year ended June 30, 2019.

C. Interests of Experts and Counsel

Not required.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information.

See Item 18 for our audited consolidated financial statements.

Legal Proceedings

We are currently not involved in any legal proceedings; nor are we aware of any claims that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Dividend Policy

The holders of shares of our common shares are entitled to dividends out of funds legally available when and as declared by our board of directors. Our board of directors has never declared a dividend and does not anticipate declaring a dividend in the foreseeable future. Should we decide in the future to pay dividends, as a holding company, our ability to do so and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiary and other holdings and investments. In addition, the operating companies may, from time to time, be subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions. In the event of our liquidation, dissolution or winding up, holders of our common shares are entitled to receive, ratably, the net assets available to shareholders after payment of all creditors.

B. Significant Changes

Except as disclosed elsewhere in this Annual Report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this Annual Report.

ITEM 9. THE OFFER AND LISTING**A. Offer and Listing Details**

The following table sets forth, for the calendar months indicated and through June 30, 2019, the monthly high and low sale prices for our shares, as reported on NASDAQ Stock Market. The closing price for the Company's securities on October 11, 2019 was \$4.92 per share.

	Shares	
	High	Low
Monthly Highs and Lows		
June 2019	\$ 6.44	\$ 5.56
July 2019	\$ 5.9589	\$ 5.21
August 2019	\$ 5.44	\$ 4.86
September 2019	\$ 5.35	\$ 4.97

B. Plan of Distribution

Not Applicable.

C. Markets

Our shares have been listed on the NASDAQ Stock Market under the symbol CLPS since May 24, 2018 following the completion of our initial public offering.

D. Selling Shareholders

Not Applicable.

E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

ITEM 10. ADDITIONAL INFORMATION**A. Share Capital**

Not Applicable.

B. Memorandum and Articles of Association

The information required by Item 10.B of Form 20-F is included in the section titled "Description of Share Capital" in our Registration Statement on Form F-1 initially filed with the SEC on March 27, 2018, and subsequently updated (File No.: 333-223956), which section is incorporated herein by reference.

C. Material Contracts

The information required by Item 10.B of Form 20-F is included in the sections titled "Our Business," "Directors and Executive Officers," "Related Party Transactions," and "Underwriting" in our Registration Statement on Form F-1 initially filed with the SEC on March 27, 2018, and subsequently updated (File No.: 333-223956), which section is incorporated herein by reference.

D. Exchange controls

Under Cayman Islands law, there are currently no restrictions on the export or import of capital, including foreign exchange controls or restrictions that affect the remittance of dividends, interest or other payments to nonresident holders of our shares.

E. Taxation

The following summary of the material Cayman Islands, PRC and U.S. federal income tax consequences of an investment in our common shares is based upon laws and relevant interpretations thereof in effect as of the date of this Annual Report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our common shares, such as the tax consequences under state, local and other tax laws.

Cayman Islands Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by the Company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Material PRC Income Tax Considerations

Under the new EIT Law and the Implementing Rules, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered as a resident enterprise and will be subject to a PRC income tax on its global income. According to the Implementing Rules, “de facto management bodies” refer to “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” Accordingly, our holding company may be considered a resident enterprise and may therefore be subject to a PRC income tax on our global income. The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises and not those invested in by individuals or foreign enterprises, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or controlled by or invested in by individuals or foreign enterprises. If we are considered a resident enterprise and earn income other than dividends from our PRC subsidiary, such PRC income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

If the PRC tax authorities determine that CLPS Incorporation or any of our subsidiaries outside of China is a “resident enterprise” for PRC enterprise income tax purposes, a number of PRC tax consequences could follow. First, CLPS Incorporation or any of our subsidiaries outside of China may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income, as well as PRC enterprise income tax reporting obligations. Second, under the EIT Law and its implementing rules, dividends paid between “qualified resident enterprises” are exempt from enterprise income tax.

If CLPS Incorporation or any of our subsidiaries outside of China were treated as a PRC “non-resident enterprise” under the EIT Law, then dividends that it receives from its PRC operating subsidiary (assuming such dividends were considered sourced within the PRC) (1) may be subject to a 5% PRC withholding tax, if the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the “PRC - Hong Kong Tax Treaty”) were applicable, or (2) if such treaty does not apply (i.e., because the PRC tax authorities may deem the Hong Kong enterprise to be a conduit not entitled to treaty benefits), may be subject to a 10% PRC withholding tax. Any such taxes on dividends could materially reduce the amount of dividends, if any, we could pay to its shareholders.

Finally, the new “resident enterprise” classification could result in a situation in which a 10% PRC tax is imposed on dividends we pay to its non-PRC shareholders that are not PRC tax “resident enterprises” and gains derived by them from transferring our common shares or warrants, if such income is considered PRC-sourced income by the relevant PRC authorities. In such event, we may be required to withhold the 10% PRC tax on any dividends paid to its non-PRC resident shareholders. Our non-PRC resident shareholders also may be responsible for paying PRC tax at a rate of 10% on any gain realized from the sale or transfer of common shares or warrants in certain circumstances. We would not, however, have an obligation to withhold PRC tax with respect to such gain. If any such PRC taxes apply, a non-PRC resident shareholder may be entitled to a reduced rate of PRC taxes under an applicable income tax treaty and or a foreign tax credit against such shareholder’s domestic income tax liability (subject to applicable conditions and limitations). Prospective investors should consult with their own tax advisors regarding the applicability of any such taxes, the effects of any applicable income tax treaties, and any available foreign tax credits.

General

The following is a summary of the material U.S. federal income tax consequences of owning and disposing of our ordinary shares. The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to a beneficial owner of our shares that is for U.S. federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation) that is created or organized (or treated as created or organized) in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if (i) a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust, or (ii) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a beneficial owner of our shares is not described as a U.S. Holder in one of the four bullet points above and is not an entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes, such owner will be considered a “Non-U.S. Holder.”

This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing Treasury regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These authorities are subject to change or differing interpretations, possibly on a retroactive basis.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to us or to any particular holder of our shares based on such holder’s individual circumstances. In particular, this discussion considers only holders that own our shares as capital assets within the meaning of Section 1221 of the Code. This discussion also does not address the potential application of the alternative minimum tax or the U.S. federal income tax consequences to holders that are subject to special rules, including:

- financial institutions or financial services entities;
- broker-dealers;
- taxpayers who have elected mark-to-market accounting;
- tax-exempt entities;
- governments or agencies or instrumentalities thereof;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- certain expatriates or former long-term residents of the United States;

- persons that actually or constructively own 5% or more of our voting shares;
- persons that acquired our shares pursuant to the exercise of employee stock options, in connection with employee stock incentive plans or otherwise as compensation;
- persons that hold our shares as part of a straddle, constructive sale, hedging, conversion or other integrated transaction; or
- persons whose functional currency is not the U.S. dollar.

This discussion does not address any aspect of U.S. federal non-income tax laws, such as gift or estate tax laws, or state, local or non-U.S. tax laws. Additionally, this discussion does not consider the tax treatment of partnerships or other pass-through entities or persons who hold our securities through such entities. If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of our shares, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. This discussion also assumes that any distribution made (or deemed made) in respect of our shares and any consideration received (or deemed received) by a holder in connection with the sale or other disposition of such shares will be in U.S. dollars.

We have not sought, and will not seek, a ruling from the Internal Revenue Service (or “IRS”), or an opinion of counsel as to any U.S. federal income tax consequence described herein. The IRS may disagree with one or more aspects of the discussion herein, and its determination may be upheld by a court. Moreover, there can be no assurance that future legislation, regulations, administrative rulings or court decisions will not adversely affect the accuracy of the statements in this discussion.

BECAUSE OF THE COMPLEXITY OF THE TAX LAWS AND BECAUSE THE TAX CONSEQUENCES TO ANY PARTICULAR HOLDER OF OUR SECURITIES MAY BE AFFECTED BY MATTERS NOT DISCUSSED HEREIN, EACH HOLDER OF OUR SECURITIES IS URGED TO CONSULT WITH ITS TAX ADVISOR WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF OUR SECURITIES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND NON-U.S. TAX LAWS, AS WELL AS U.S. FEDERAL TAX LAWS AND APPLICABLE TAX TREATIES.

Tax Consequences to U.S. Holders of Common Shares

Taxation of Distributions Paid on Common Shares

Subject to the passive foreign investment company (or “PFIC”), rules discussed below, a U.S. Holder generally will be required to include in gross income as ordinary income the amount of any cash dividend paid on our common shares. A cash distribution on such shares will be treated as a dividend for U.S. federal income tax purposes to the extent the distribution is paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Any distributions in excess of such earnings and profits generally will be applied against and reduce the U.S. Holder’s basis in its common shares and, to the extent in excess of such basis, will be treated as gain from the sale or exchange of such common shares.

With respect to corporate U.S. Holders, dividends on our shares will not be eligible for the dividends-received deduction generally allowed to domestic corporations in respect of dividends received from other domestic corporations. With respect to non-corporate U.S. Holders, dividends on our shares may be taxed at the lower applicable long-term capital gains rate provided that (1) our common shares are readily tradable on an established securities market in the United States or, in the event we are deemed to be a Chinese “resident enterprise” under the EIT Law, we are eligible for the benefits of the Agreement between the Government of the United States of America and the Government of the People’s Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, or the “U.S.-PRC Tax Treaty,” (2) we are not a PFIC, as discussed below, for either the taxable year in which the dividend was paid or the preceding taxable year, and (3) certain holding period requirements are met. Under published IRS authority, shares are considered for purposes of clause (1) above to be readily tradable on an established securities market in the United States only if they are listed on certain exchanges, which presently include the Nasdaq Stock Market. U.S. Holders should consult their own tax advisors regarding the tax treatment of any dividends paid with respect to our common shares.

If PRC taxes apply to dividends paid to a U.S. Holder on our common shares, such U.S. Holder may be entitled to a reduced rate of PRC tax under the U.S.-PRC Tax Treaty. In addition, such PRC taxes may be treated as foreign taxes eligible for credit against such holder's U.S. federal income tax liability (subject to certain limitations). U.S. Holders should consult their own tax advisors regarding the creditability of any such PRC tax and their eligibility for the benefits of the U.S.-PRC Tax Treaty.

Taxation on the Disposition of Common Shares

Upon a sale or other taxable disposition of our common shares, and subject to the PFIC rules discussed below, a U.S. Holder should recognize capital gain or loss in an amount equal to the difference between the amount realized and the U.S. Holder's adjusted tax basis in the common shares. Capital gains recognized by U.S. Holders generally are subject to U.S. federal income tax at the same rate as ordinary income, except that long-term capital gains recognized by non-corporate U.S. Holders are generally subject to U.S. federal income tax at a maximum rate of 20%. Capital gain or loss will constitute long-term capital gain or loss if the U.S. Holder's holding period for the common shares exceeds one year. The deductibility of capital losses is subject to various limitations. If PRC taxes would otherwise apply to any gain from the disposition of our common shares by a U.S. Holder, such U.S. Holder may be entitled to a reduction in or elimination of such taxes under the U.S.-PRC Tax Treaty. Any PRC taxes that are paid by a U.S. Holder with respect to such gain may be treated as foreign taxes eligible for credit against such holder's U.S. federal income tax liability (subject to certain limitations that could reduce or eliminate the available tax credit). U.S. Holders should consult their own tax advisors regarding the creditability of any such PRC tax and their eligibility for the benefits of the U.S.-PRC Tax Treaty.

Passive Foreign Investment Company Rules

A foreign (i.e., non-U.S.) corporation will be a PFIC if at least 75% of its gross income in a taxable year of the foreign corporation, including its pro rata share of the gross income of any corporation in which it is considered to own at least 25% of the shares by value, is passive income. Alternatively, a foreign corporation will be a PFIC if at least 50% of its assets in a taxable year of the foreign corporation, ordinarily determined based on fair market value and averaged quarterly over the year, including its pro rata share of the assets of any corporation in which it is considered to own at least 25% of the shares by value, are held for the production of, or produce, passive income. Passive income generally includes dividends, interest, rents and royalties (other than certain rents or royalties derived from the active conduct of a trade or business) and gains from the disposition of passive assets. Based on our current composition and assets, we do not expect to be treated as a PFIC under the current PFIC rules. Our PFIC status, however, will not be determinable until after the end of each taxable year. Accordingly, there can be no assurance with respect to our status as a PFIC for our current taxable year or any future taxable year. If we are determined to be a PFIC and a U.S. Holder did not make either a timely qualified electing fund (or "QEF"), election for our first taxable year as a PFIC in which the U.S. Holder held (or was deemed to hold) common shares, or a mark-to-market election, as described below, such holder generally will be subject to special rules with respect to:

- any gain recognized by the U.S. Holder on the sale or other disposition of its common shares; and
- any "excess distribution" made to the U.S. Holder (generally, any distributions to such U.S. Holder during a taxable year of the U.S. Holder that are greater than 125% of the average annual distributions received by such U.S. Holder in respect of the common shares during the three preceding taxable years of such U.S. Holder or, if shorter, such U.S. Holder's holding period for the common shares).

Under these rules,

- the U.S. Holder's gain or excess distribution will be allocated ratably over the U.S. Holder's holding period for the common shares;

- the amount allocated to the U.S. Holder's taxable year in which the U.S. Holder recognized the gain or received the excess distribution, or to the period in the U.S. Holder's holding period before the first day of our first taxable year in which we are a PFIC, will be taxed as ordinary income;
- the amount allocated to other taxable years (or portions thereof) of the U.S. Holder and included in its holding period will be taxed at the highest tax rate in effect for that year and applicable to the U.S. Holder; and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year of the U.S. Holder.

In general, a U.S. Holder may avoid the PFIC tax consequences described above in respect to our common shares by making a timely QEF election to include in income its pro rata share of our net capital gains (as long-term capital gain) and other earnings and profits (as ordinary income), on a current basis, in each case whether or not distributed, in the taxable year of the U.S. Holder in which or with which our taxable year ends. There can be no assurance, however, that we will pay current dividends or make other distributions sufficient for a U.S. Holder who makes a QEF election to satisfy the tax liability attributable to income inclusions under the QEF rules, and the U.S. Holder may have to pay the resulting tax from its other assets. A U.S. Holder may make a separate election to defer the payment of taxes on undistributed income inclusions under the QEF rules, but if deferred, any such taxes will be subject to an interest charge.

The QEF election is made on a shareholder-by-shareholder basis and, once made, can be revoked only with the consent of the IRS. A U.S. Holder generally makes a QEF election by attaching a completed IRS Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund), to a timely filed U.S. federal income tax return for the tax year to which the election relates. Retroactive QEF elections generally may be made only by filing a protective statement with such return and if certain other conditions are met or with the consent of the IRS. In order to comply with the requirements of a QEF election, a U.S. Holder must receive certain information from us. Upon request from a U.S. Holder, we will endeavor to provide to the U.S. Holder no later than 90 days after the request such information as the IRS may require, including a PFIC annual information statement, in order to enable the U.S. Holder to make and maintain a QEF election. However, there is no assurance that we will have timely knowledge of our status as a PFIC in the future or of the required information to be provided.

If a U.S. Holder has made a QEF election with respect to our common shares, and the special tax and interest charge rules do not apply to such shares (because of a timely QEF election for our first taxable year as a PFIC in which the U.S. Holder holds (or is deemed to hold) such shares), any gain recognized on the appreciation of our common shares generally will be taxable as capital gain and no interest charge will be imposed. As discussed above, U.S. Holders of a QEF are currently taxed on their pro rata shares of a PFIC's earnings and profits, whether or not distributed. In such case, a subsequent distribution of such earnings and profits that were previously included in income generally should not be taxable as a dividend to those U.S. Holders who made a QEF election. The tax basis of a U.S. Holder's shares in a QEF will be increased by amounts that are included in income, and decreased by amounts distributed but not taxed as dividends, under the above rules. Similar basis adjustments apply to property if by reason of holding such property the U.S. Holder is treated under the applicable attribution rules as owning shares in a QEF.

Although a determination as to our PFIC status will be made annually, an initial determination that our company is a PFIC will generally apply for subsequent years to a U.S. Holder who held common shares while we were a PFIC, whether or not we meet the test for PFIC status in those years. A U.S. Holder who makes the QEF election discussed above for our first taxable year as a PFIC in which the U.S. Holder holds (or is deemed to hold) our common shares, however, will not be subject to the PFIC tax and interest charge rules discussed above in respect to such shares. In addition, such U.S. Holder will not be subject to the QEF inclusion regime with respect to such shares for any taxable year of ours that ends within or with a taxable year of the U.S. Holder and in which we are not a PFIC. On the other hand, if the QEF election is not effective for each of our taxable years in which we are a PFIC and the U.S. Holder holds (or is deemed to hold) our common shares, the PFIC rules discussed above will continue to apply to such shares unless the holder makes a purging election, and pays the tax and interest charge with respect to the gain inherent in such shares attributable to the pre-QEF election period.

Alternatively, if a U.S. Holder, at the close of its taxable year, owns shares in a PFIC that are treated as marketable stock, the U.S. Holder may make a mark-to-market election with respect to such shares for such taxable year. If the U.S. Holder makes a valid mark-to-market election for the first taxable year of the U.S. Holder in which the U.S. Holder holds (or is deemed to hold) shares in us and for which we are determined to be a PFIC, such holder generally will not be subject to the PFIC rules described above in respect to its common shares. Instead, in general, the U.S. Holder will include as ordinary income each year the excess, if any, of the fair market value of its common shares at the end of its taxable year over the adjusted basis in its common shares. The U.S. Holder also will be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of its common shares over the fair market value of its common shares at the end of its taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). The U.S. Holder's basis in its common shares will be adjusted to reflect any such income or loss amounts, and any further gain recognized on a sale or other taxable disposition of the common shares will be treated as ordinary income.

The mark-to-market election is available only for stock that is regularly traded on a national securities exchange that is registered with the SEC, or on a foreign exchange or market that the IRS determines has rules sufficient to ensure that the market price represents a legitimate and sound fair market value. U.S. Holders should consult their own tax advisors regarding the availability and tax consequences of a mark-to-market election in respect to our common shares under their particular circumstances.

If we are a PFIC and, at any time, have a foreign subsidiary that is classified as a PFIC, U.S. Holders generally would be deemed to own a portion of the shares of such lower-tier PFIC, and generally could incur liability for the deferred tax and interest charge described above if we receive a distribution from, or dispose of all or part of our interest in, the lower-tier PFIC. Upon request, we will endeavor to cause any lower-tier PFIC to provide to a U.S. Holder no later than 90 days after the request the information that may be required to make or maintain a QEF election with respect to the lower-tier PFIC. However, there is no assurance that we will have timely knowledge of the status of any such lower-tier PFIC or will be able to cause the lower-tier PFIC to provide the required information. U.S. Holders are urged to consult their own tax advisors regarding the tax issues raised by lower-tier PFICs. If a U.S. Holder owns (or is deemed to own) shares during any year in a PFIC, such holder may have to file an IRS Form 8621 (whether or not a QEF election or mark-to-market election is made). The rules dealing with PFICs and with the QEF and mark-to-market elections are very complex and are affected by various factors in addition to those described above. Accordingly, U.S. Holders of our common shares should consult their own tax advisors concerning the application of the PFIC rules to our common shares under their particular circumstances.

Tax Consequences to Non-U.S. Holders of Common Shares

Dividends paid to a Non-U.S. Holder in respect to its common shares generally will not be subject to U.S. federal income tax, unless the dividends are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base that such holder maintains in the United States).

In addition, a Non-U.S. Holder generally will not be subject to U.S. federal income tax on any gain attributable to a sale or other disposition of our common shares, unless such gain is effectively connected with its conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base that such holder maintains in the United States) or the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of sale or other disposition and certain other conditions are met (in which case, such gain from United States sources generally is subject to tax at a 30% rate or a lower applicable tax treaty rate).

Dividends and gains that are effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base in the United States) generally will be subject to tax in the same manner as for a U.S. Holder and, in the case of a Non-U.S. Holder that is a corporation for U.S. federal income tax purposes, may also be subject to an additional branch profits tax at a 30% rate or a lower applicable tax treaty rate.

Backup Withholding and Information Reporting

In general, information reporting for U.S. federal income tax purposes should apply to distributions made on our common shares within the United States to a non-corporate U.S. Holder and to the proceeds from sales and other dispositions of our common shares by a non-corporate U.S. Holder to or through a U.S. office of a broker. Payments made (and sales and other dispositions effected at an office) outside the United States will be subject to information reporting in limited circumstances. In addition, backup withholding of United States federal income tax, currently at a rate of 28%, generally will apply to dividends paid on our common shares to a non-corporate U.S. Holder and the proceeds from sales and other dispositions of shares by a non-corporate U.S. Holder, in each case who (a) fails to provide an accurate taxpayer identification number; (b) is notified by the IRS that backup withholding is required; or (c) in certain circumstances, fails to comply with applicable certification requirements. A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status, under penalties of perjury, on a duly executed applicable IRS Form W-8 or by otherwise establishing an exemption.

Backup withholding is not an additional tax. Rather, the amount of any backup withholding will be allowed as a credit against a U.S. Holder's or a Non-U.S. Holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the IRS. Holders are urged to consult their own tax advisors regarding the application of backup withholding and the availability of and procedure for obtaining an exemption from backup withholding in their particular circumstances.

F. Dividends and paying agents

Not required.

G. Statement by experts

Not required.

H. Documents on display

Documents concerning us that are referred to in this document may be inspected at c/o 2nd Floor, Building 18, Shanghai Pudong Software Park, 498 Guoshoujing Road, Pudong, Shanghai 201203, People's Republic of China. In addition, we file annual reports and other information with the Securities and Exchange Commission. We file annual reports on Form 20-F and submit other information under cover of Form 6-K. As a foreign private issuer, we are exempt from the proxy requirements of Section 14 of the Exchange Act and our officers, directors and principal shareholders are exempt from the insider short-swing disclosure and profit recovery rules of Section 16 of the Exchange Act. Annual reports and other information we file with the Commission may be inspected at the public reference facilities maintained by the Commission at Room 1024, 100 F. Street, N.E., Washington, D.C. 20549, and copies of all or any part thereof may be obtained from such offices upon payment of the prescribed fees. You may call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms and you can request copies of the documents upon payment of a duplicating fee, by writing to the Commission. In addition, the Commission maintains a web site that contains reports and other information regarding registrants (including us) that file electronically with the Commission which can be assessed at <http://www.sec.gov>.

I. Subsidiary Information

Not required.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. While interest-earning instruments carry a degree of interest rate risk, we have not been exposed, nor do we anticipate being exposed, to material risks due to changes in market interest rates.

Foreign Currency Risk

A majority of the Company's expense transactions are denominated in RMB and a significant portion of the Company and its subsidiaries' assets and liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China ("PBOC"). Remittances in currencies other than RMB by the Company in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

Our functional currency is the RMB, and our financial statements are presented in U.S. dollars. The RMB depreciated by 2.0% in fiscal 2017, appreciated by 2.4% in fiscal 2018 and depreciated by 3.7% in fiscal 2019, respectively. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. The change in the value of the RMB relative to the U.S. dollar may affect our financial results reported in the U.S. dollar terms without giving effect to any underlying changes in our business or results of operations. Currently, our assets, liabilities, revenues and costs are denominated in RMB.

To the extent that the Company needs to convert U.S. dollars into RMB for capital expenditures and working capital and other business purposes, appreciation of RMB against U.S. dollar would have an adverse effect on the RMB amount the Company would receive from the conversion. Conversely, if the Company decides to convert RMB into U.S. dollar for the purpose of making payments for dividends, strategic acquisition or investments or other business purposes, appreciation of U.S. dollar against RMB would have a negative effect on the U.S. dollar amount available to the Company.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not required.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

There has been no default of any indebtedness nor is there any arrearage in the payment of dividends.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has performed an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 (“Exchange Act”) Rules 13a-15(e) or 15d-15(e)) as of June 30, 2019 as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Based on that evaluation, management, including our Chief Executive Officer and Chief Financial Officer, has concluded that due to the material weakness described below as of June 30, 2019, our disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. We are in the process of reviewing and, where necessary, modifying controls and procedures throughout the Company.

Management’s Annual Report on Internal Control over Financial Reporting

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the framework set forth in the report Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company’s internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication and (v) monitoring.

Based on that evaluation, our management concluded that these controls were not effective at June 30, 2019. We did not maintain sufficient controls over financial reporting processes due to the Company’s lack of sufficient financial accounting and reporting personnel with requisite knowledge and experience in the application of the United States generally accepted accounting principles (“U.S. GAAP”) and Securities and Exchange Commission (“SEC”) rules and lack of sufficient controls and procedures that are commensurate with U.S. GAAP and SEC reporting requirements. This deficiency constitutes as a material weakness of our internal control over financial reporting.

Changes in Internal Controls over Financial Reporting

During our preparation of the financial statements for the fiscal year ended June 30, 2018, we identified one material weakness in internal control over financial reporting, which was we lacked the necessary controls and procedures that need to be in place to monitor, capture, report and disclose certain subsequent events. In order to address the matter as it was identified, we immediately designated a “point” person within the Company’s accounting and finance reporting structure to whom all information relating to material transactions after the balance sheet closing date was and continues to be reported to ensure that such information is then properly and timely disclosed in the Company’s consolidated financial statements. We concluded that the material weakness was remediated as of June 30, 2019.

During the year ended June 30, 2019, we identified another material weakness in internal control over financial reporting, which is that the Company lacks sufficient financial accounting and reporting personnel with requisite knowledge and experience in the application of the United States generally accepted accounting principles (“U.S. GAAP”) and Securities and Exchange Commission (“SEC”) rules and lacks sufficient controls and procedures that are commensurate with U.S. GAAP and SEC reporting requirements. In order to address the matter as it was identified, we have planned to take a number measures to strengthen our internal control over financial reporting, including: (i) hiring additional accounting and financial reporting personnel with U.S. GAAP and SEC reporting experience, (ii) expanding the capabilities of existing accounting and financial reporting personnel through continuous training and education in the accounting and reporting requirements under U.S. GAAP, and SEC rules and regulations, (iii) developing, communicating and implementing an accounting policy manual for its accounting and financial reporting personnel for recurring transactions and period-end closing processes, and (iv) establishing effective monitoring and oversight controls for non-recurring and complex transactions to ensure the accuracy and completeness of the Company’s consolidated financial statements and related disclosures. Due to the limitation of time from identification of the material weakness to June 30, 2019, we were not able to entirely implement those measures designed to improve our internal control over financial reporting to remediate the material weakness, and hence our management concluded that the material weakness still existed as of June 30, 2019. We expect to complete the measures discussed above by the end of June 30, 2020 and will continue to implement measures to remediate our internal control deficiencies in order to meet the requirements set forth by Section 404 of the Sarbanes Oxley Act.

Other than as described above, there were no changes in our internal control over financial reporting during the year ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.

Our Board of Directors has determined that Jin He Shao is an audit committee financial expert as that term is defined in Item 16A(b) of Form 20-F, and “independent” as that term is defined in the NASDAQ listing standards.

ITEM 16B. CODE OF ETHICS.

Our Board has adopted a code of business conduct and ethics that applies to our directors, officers and employees. A copy of this code is available on our website. We intend to disclose on our website any amendments to the Code of Business Conduct and Ethics and any waivers of the Code of Business Conduct and Ethics that apply to our principal executive officer, principal financial officer, principal accounting officer, controller, or persons performing similar functions.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table represents the approximate aggregate fees for services billed by Friedman LLP for the periods indicated:

	June 30, 2019	June 30, 2018	June 30, 2017
	USD'000	USD'000	USD'000
Audit Fees	\$ 240	\$ 170	\$ 152
Audit Related Fees	73	125	25
Tax Fees	-	-	-
All Other Fees	-	-	-
Total Fees	\$ 313	\$ 295	\$ 177

Ernst & Young Hua Ming LLP (“EY”) has been appointed as the successor auditor, effective from December 21, 2018. The appointment of EY as the successor auditor has been approved by the chair of the Audit Committee of the Company’s Board of Directors.

The following table represents the approximate aggregate fees for services billed by Ernst & Young Hua Ming LLP for the period indicated:

	June 30, 2019
	USD'000
Audit Fees	\$ 323
Audit Related Fees	10
Tax Fees	-
All Other Fees	-
Total Fees	\$ 333

Our Audit Committee evaluated and approved in advance the scope and cost of the engagement of an auditor before the auditor rendered its audit and non-audit services.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

No purchase of our securities were made by us or our affiliates in 2018.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT.

On December 21, 2018, Friedman LLP was dismissed as our independent registered public accounting firm ("Friedman"), effective as of the same date. Effective from December 21, 2018, we engaged Ernst & Young Hua Ming LLP as our independent registered public accounting firm. The change of our independent registered public accounting firm was approved by the audit committee of our board on December 10, 2018. The decision was not made due to any disagreements between the Company and Friedman.

The reports of Friedman on the Company's consolidated financial statements as of June 30, 2018 and for the fiscal years ended June 30, 2018 and 2017, did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

During the fiscal years ended June 30, 2018 and 2017 and the subsequent interim period through December 5, 2018, there were no (i) disagreements between us and Friedman on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Friedman would have caused them to make reference thereto in their reports on the consolidated financial statements for such years, or (ii) reportable events as defined in Form 20-F Item 16F (a)(1)(v) other than the material weakness reported in our 2018 annual report on Form 20-F filed with the U.S. Securities and Exchange of Commission on September 25, 2018. Specifically, the material weaknesses identified as of June 30, 2018 were as follows:

The material weakness related to the Company's lack of controls and procedures in place to monitor, capture, report and disclose subsequent events that occurred after the balance sheet date, specifically relating to certain revolving credit facilities that were put in place by the Company following such date.

We provided Friedman with a copy of the disclosures from the first paragraph to the fourth paragraph under this Item 16F and Friedman agreed with such disclosures.

During each of the years ended June 30, 2018 and 2017 and the subsequent interim period through December 21, 2018, neither we nor anyone on behalf of us has consulted with Ernst & Young Hua Ming LLP regarding (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither a written report nor oral advice was provided to us that Ernst & Young Hua Ming LLP concluded was an important factor considered by us in reaching a decision as to any accounting, auditing, or financial reporting issue, (ii) any matter that was the subject of a disagreement pursuant to Item 16F(a)(1)(iv) of the instructions to Form 20-F, or (iii) any reportable event pursuant to Item 16F(a)(1)(v) of the instructions to Form 20-F.

ITEM 16G. CORPORATE GOVERNANCE

None.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The financial statements are filed as part of this Annual Report beginning on page F-1.

CLPS INCORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2019, 2018 AND 2017

CLPS INCORPORATION

TABLE OF CONTENTS

	<u>Page</u>
Consolidated Financial Statements	
Report of Independent Registered Public Accounting Firm	F-2
Report of Independent Registered Public Accounting Firm	F-3
Consolidated Balance Sheets as of June 30, 2019 and 2018	F-4 – F-5
Consolidated Statements of Comprehensive (Loss) Income for the Years Ended June 30, 2019, 2018 and 2017	F-6
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended June 30, 2019, 2018 and 2017	F-7
Consolidated Statements of Cash Flows for the Years Ended June 30, 2019, 2018 and 2017	F-8 – F-9
Notes to Consolidated Financial Statements	F-10 – F-50

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of CLPS Incorporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of CLPS Incorporation (the “Company”) as of June 30, 2019, the related consolidated statements of comprehensive loss, changes in shareholders’ equity and cash flows for the year ended June 30, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2019, and the results of its operations and its cash flows for the year ended June 30, 2019 in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

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

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

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

/s/ Ernst & Young Hua Ming LLP

We have served as the Company’s auditor since 2018.

Shanghai, the People’s Republic of China

October 21, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
CLPS Incorporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of CLPS Incorporation and Subsidiaries (collectively, the “Company”) as of June 30, 2018 and 2017, and the related consolidated statements of income and comprehensive income, changes in shareholders’ equity and cash flows for each of the years in the three-year period ended June 30, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CLPS Incorporation and Subsidiaries as of June 30, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Friedman LLP

We have served as the Company’s auditor since 2017.
New York, New York
September 25, 2018

CLPS INCORPORATION
CONSOLIDATED BALANCE SHEETS
(Amounts in U.S. dollars (“\$”), except for number of shares)

	Note	As of June 30,	
		2019	2018
ASSETS			
Current assets			
Cash and cash equivalents		\$ 6,601,335	\$ 9,742,886
Short-term investments		1,791,697	-
Accounts receivable, net	4	19,263,584	16,267,835
Amounts due from underwriters on the over-allotment	19	-	1,472,592
Escrow receivable	5	200,000	-
Prepayments, deposits and other assets, net	6	1,028,154	1,231,217
Prepaid income tax		630,790	206,361
Amounts due from related parties	13	230,540	131,321
Total Current Assets		<u>29,746,100</u>	<u>29,052,212</u>
Property and equipment, net	7	566,591	333,897
Intangible assets, net	8	427,769	260,059
Goodwill	9	447,790	173,560
Escrow receivable	5	-	200,000
Prepayments, deposits and other assets, net	6	222,507	119,372
Long-term investments	10	914,006	293,714
Deferred tax assets, net	14	338,221	512,097
Total Assets		<u>\$ 32,662,984</u>	<u>\$ 30,944,911</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term bank loans	11	\$ 2,184,996	\$ 2,553,989
Accounts payable and other current liabilities		196,832	1,454,770
Tax payables	14	915,629	904,850
Deferred subsidies		109,250	125,080
Deferred revenues		124,192	200,836
Salaries and benefits payable	12	7,735,487	7,341,688
Amounts due to related parties	13	-	208,342
Total Current Liabilities		<u>11,266,386</u>	<u>12,789,555</u>

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

CLPS INCORPORATION
CONSOLIDATED BALANCE SHEETS - CONTINUED
(Amounts in U.S. dollars (“\$”), except for number of shares)

	<u>Note</u>	<u>As of June 30,</u>	
		<u>2019</u>	<u>2018</u>
Commitments and Contingencies	15		
Shareholders’ Equity			
Common share, \$0.0001 par value; 100,000,000 shares authorized; 13,913,201 shares issued and outstanding as of June 30, 2019 and 13,590,000 shares issued and outstanding as of June 30, 2018*	19	1,391	1,359
Additional paid-in capital	19	24,276,622	17,285,543
Statutory reserves	19	1,833,802	1,118,467
Accumulated deficits		(4,509,729)	(524,618)
Accumulated other comprehensive loss		(813,650)	(401,677)
Total CLPS Incorporation’s Shareholders’ Equity		<u>20,788,436</u>	<u>17,479,074</u>
Non-controlling Interests		<u>608,162</u>	<u>676,282</u>
Total Shareholders’ Equity		<u>21,396,598</u>	<u>18,155,356</u>
Total Liabilities and Shareholders’ Equity		<u>\$ 32,662,984</u>	<u>\$ 30,944,911</u>

* The shares and per share data are presented on a retroactive basis to reflect the nominal share issuance (Note 19).

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

CLPS INCORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Amounts in U.S. dollars (“\$”), except for number of shares)

	Note	For the years ended June 30,		
		2019	2018	2017
Revenues		\$ 64,932,937	\$ 48,938,593	\$ 31,361,976
Less: Cost of revenues		(41,178,356)	(31,277,255)	(18,669,812)
Gross profit		<u>23,754,581</u>	<u>17,661,338</u>	<u>12,692,164</u>
Operating expenses:				
Selling and marketing expenses		2,179,029	2,225,702	1,206,493
Research and development expenses		7,978,883	7,837,873	4,232,788
General and administrative expenses		17,384,393	5,871,622	5,647,790
Total operating expenses		<u>27,542,305</u>	<u>15,935,197</u>	<u>11,087,071</u>
(Loss) income from operations		(3,787,724)	1,726,141	1,605,093
Subsidies and other income, net		779,508	960,784	508,187
Other expenses		(92,429)	(84,155)	(10,469)
(Loss) income before income tax and share of loss in equity investees		(3,100,645)	2,602,770	2,102,811
Provision (benefits) for income taxes	14	186,615	(112,128)	(118,546)
(Loss) income before share of loss in equity investees		(3,287,260)	2,714,898	2,221,357
Share of loss in equity investees, net of tax		(145,329)	-	-
Net (loss) income		(3,432,589)	2,714,898	2,221,357
Less: Net (loss) income attributable to non-controlling interests		(162,813)	280,435	173,912
Net (loss) income attributable to CLPS Incorporation’s shareholders		<u>\$ (3,269,776)</u>	<u>\$ 2,434,463</u>	<u>\$ 2,047,445</u>
Other comprehensive (loss) income				
Foreign currency translation (loss) gain		\$ (429,348)	\$ 55,793	\$ (93,177)
Less: foreign currency translation (loss) gain attributable to non-controlling interests		(17,375)	10,200	1,732
Other comprehensive (loss) gain attributable to CLPS Incorporation’s shareholders		<u>\$ (411,973)</u>	<u>\$ 45,593</u>	<u>\$ (94,909)</u>
Comprehensive (loss) income attributable to				
CLPS Incorporation shareholders		\$ (3,681,749)	\$ 2,480,056	\$ 1,952,536
Non-controlling interests		(180,188)	290,635	175,644
		<u>\$ (3,861,937)</u>	<u>\$ 2,770,691</u>	<u>\$ 2,128,180</u>
Basic (loss) earnings per common share*	16	\$ (0.24)	\$ 0.21	\$ 0.18
Weighted average number of share outstanding – basic		<u>13,843,764</u>	<u>11,517,123</u>	<u>11,290,000</u>
Diluted (loss) earnings per common share*	16	\$ (0.24)	\$ 0.21	\$ 0.18
Weighted average number of share outstanding – diluted		<u>13,843,764</u>	<u>11,636,367</u>	<u>11,290,000</u>

* The shares and per share data are presented on a retroactive basis to reflect the nominal share issuance (Note 19).

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

CLPS INCORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2019, 2018 AND 2017
(Amounts in U.S. dollars ("\$\$"), except for number of shares)

	Note	Common Share		Additional	Statutory	Accumulated	Accumulated	Other	Non-	Total
		Shares*	Amount*	Paid-in Capital	Surplus	Deficits	Comprehensive Loss	Controlling Interests		
Balance at July 1, 2016		11,290,000	\$ 1,129	\$ 7,120,943	\$ 418,722	\$ (2,984,943)	\$ (352,361)	\$ 4,034	\$ 4,207,524	
Non-controlling shareholders' contribution		-	-	-	-	-	-	6,438	6,438	
Non-controlling interests through an acquisition	3	-	-	-	-	-	-	290,994	290,994	
Dividend declared	19	-	-	-	-	(1,321,838)	-	-	(1,321,838)	
Net income for the year		-	-	-	-	2,047,445	-	173,912	2,221,357	
Appropriation of statutory reserve		-	-	-	261,949	(261,949)	-	-	-	
Foreign currency translation adjustments		-	-	-	-	-	(94,909)	1,732	(93,177)	
Balance at June 30, 2017		11,290,000	1,129	7,120,943	680,671	(2,521,285)	(447,270)	477,110	5,311,298	
Net proceeds from Initial Public Offering ("IPO"), net of issuance costs	19	2,000,000	200	9,549,319	-	-	-	-	9,549,519	
Net proceeds from over-allotment, net of issuance costs	19	300,000	30	1,472,562	-	-	-	-	1,472,592	
IPO issuance costs		-	-	(362,925)	-	-	-	-	(362,925)	
Purchase of subsidiaries' shares from non-controlling interests	19	-	-	(494,356)	-	-	-	(91,533)	(585,889)	
Public offering warrants	17	-	-	612,223	-	-	-	-	612,223	
Warrants issued in connection with IPO	17	-	-	(612,223)	-	-	-	-	(612,223)	
Non-controlling interests through an acquisition		-	-	-	-	-	-	70	70	
Net income for the year		-	-	-	-	2,434,463	-	280,435	2,714,898	
Appropriation of statutory reserve		-	-	-	437,796	(437,796)	-	-	-	
Foreign currency translation adjustments		-	-	-	-	-	45,593	10,200	55,793	
Balance at June 30, 2018		13,590,000	1,359	17,285,543	1,118,467	(524,618)	(401,677)	676,282	18,155,356	
Stock-based compensation	17	223,821	22	7,016,089	-	-	-	-	7,016,111	
Exercise of warrants	17	99,380	10	(10)	-	-	-	-	-	
Non-controlling interests through an acquisition	3	-	-	-	-	-	-	64,879	64,879	
Sale of subsidiaries' shares to non-controlling interests		-	-	-	-	-	-	47,189	47,189	
Net loss for the year		-	-	-	-	(3,269,776)	-	(162,813)	(3,432,589)	
Appropriation of statutory reserve	19	-	-	-	715,335	(715,335)	-	-	-	
Foreign currency translation adjustments		-	-	-	-	-	(411,973)	(17,375)	(429,348)	
Other		-	-	(25,000)	-	-	-	-	(25,000)	
Balance at June 30, 2019		13,913,201	\$ 1,391	\$ 24,276,622	\$ 1,833,802	\$ (4,509,729)	\$ (813,650)	\$ 608,162	\$ 21,396,598	

* The shares and per share data are presented on a retroactive basis to reflect the nominal share issuance (Note 19).

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

CLPS INCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in U.S. dollars (“\$”), except for number of shares)

	For the years ended June 30,		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	\$ (3,432,589)	\$ 2,714,898	\$ 2,221,357
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Share-based compensation	7,016,089	-	-
Depreciation and amortization	403,700	206,169	143,626
Deferred tax expenses (benefits)	100,109	(208,051)	(221,114)
Remeasurement loss of the previously held equity interest	19,682	-	-
Share of loss in equity investees, net of tax	145,329	8,684	-
Gain on disposal of subsidiaries	(57,588)	-	-
(Reversal of) provision for doubtful accounts	(70,893)	96,904	86,463
Loss from disposal of property and equipment	9,689	1,957	-
Changes in assets and liabilities:			
Accounts receivable	(3,055,040)	(9,753,685)	(2,410,155)
Prepayment, deposits and other assets	(37,026)	(613,277)	(357,761)
Prepaid income tax	(442,498)	(33,225)	(168,825)
Accounts payable and other current liabilities	(842,910)	592,477	52,574
Tax payables	102,408	251,627	219,672
Deferred subsidies	(27,138)	11,945	110,153
Deferred revenue	(69,241)	102,077	48,892
Salaries and benefits payable	639,024	1,848,890	899,462
Net cash provided by (used in) operating activities	<u>401,107</u>	<u>(4,772,610)</u>	<u>624,344</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(499,554)	(231,226)	(62,518)
Payments for business acquisitions	(487,061)	(107,654)	(349,617)
Cash acquired from acquisition	85,999	-	266,856
(Acquisition) disposition of long-term investments	(1,093,274)	(153,792)	44,061
Disposition of subsidiaries	(65,242)	-	-
Purchases of short-term investments	(1,803,228)	-	-
Repayments from a related party	820,982	-	-
Loans provided to a related party	(820,982)	-	-
Net cash used in investing activities	<u>(3,862,360)</u>	<u>(492,672)</u>	<u>(101,218)</u>

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

CLPS INCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Amounts in U.S. dollars (“\$”), except for number of shares)

	For the years ended June 30,		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	3,641,661	5,659,536	-
Repayments of short-term bank loans	(3,918,427)	(3,060,456)	-
Capital contributions from IPO and over-allotment, net	1,472,592	11,022,111	-
Escrow receivable	-	(200,000)	-
Due from underwriters on the over-allotment	-	(1,472,592)	-
Cash paid for issuance cost of IPO	-	(283,092)	-
Non-controlling interest shareholder’s contribution	-	-	6,438
Purchase of non-controlling interests	(582,440)	-	-
Amounts due from related parties	-	(12,941)	-
Amounts due to related parties	(146,604)	(936,338)	(102,754)
Dividend paid	-	(612,988)	(736,436)
Net cash provided by (used in) financing activities	<u>466,782</u>	<u>10,103,240</u>	<u>(832,752)</u>
Effect of exchange rate changes on cash	(147,080)	90,360	(153,002)
Net (decrease) increase in cash	(3,141,551)	4,928,318	(462,628)
Cash and cash equivalents, at beginning of year	<u>\$ 9,742,886</u>	<u>\$ 4,814,568</u>	<u>\$ 5,277,196</u>
Cash, cash equivalents at the end of the year	<u>\$ 6,601,335</u>	<u>\$ 9,742,886</u>	<u>\$ 4,814,568</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Income tax paid	<u>\$ 768,956</u>	<u>\$ 325,609</u>	<u>\$ 335,143</u>
Interest paid	<u>\$ 69,602</u>	<u>\$ 74,754</u>	<u>\$ -</u>
NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES:			
Dividend payable included in amounts due to related parties	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 585,402</u>
Payable for business acquisition and purchase of non-controlling interests	<u>\$ -</u>	<u>\$ 584,040</u>	<u>\$ 128,371</u>
Payable for investment – cost method	<u>\$ -</u>	<u>\$ 151,539</u>	<u>\$ -</u>
Capital contribution from non-controlling shareholders	<u>\$ -</u>	<u>\$ 70</u>	<u>\$ -</u>
Prepaid for issuance costs of IPO in the previous year	<u>\$ -</u>	<u>\$ 79,833</u>	<u>\$ -</u>

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

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

CLPS Incorporation (“CLPS” or the “Company”), is a company that was established under the laws of the Cayman Islands on May 11, 2017 as a holding company. The Company, through its subsidiaries, designs, builds, and delivers IT services, solutions and product services. The Company customizes its services to specific industries with customer service teams typically based on-site at the customer locations. The Company’s solutions enable its clients to meet the changing demands in an increasingly global, internet-driven, and competitive marketplace. Mr. Xiao Feng Yang, the Company’s Chairman of the Board and President, together with Mr. Raymond Ming Hui Lin, the Company’s Chief Executive Officer (“CEO”) are the controlling shareholders of the Company (the “controlling shareholder”). On June 8, 2018, the Company completed its initial public offering (“IPO”) on the Nasdaq Capital Market (Note 19).

Reorganization

A reorganization of the Company’s legal structure was completed on November 2, 2017. The reorganization involved the incorporation of CLPS, a Cayman Islands holding company; Qinheng Co., Limited (“Qinheng”) and Qiner Co., Limited (“Qiner”), two holding companies established in Hong Kong, and Shanghai Qincheng Information Technology Co., Ltd. (“CLPS QC” or “WOFE”) established in the People’s Republic of China (“PRC”); and the transfer of ChinaLink Professional Service Co., Ltd. (“CLPS Shanghai”) from the controlling shareholders to CLPS QC. After the reorganization, CLPS owns 100% equity interests of the entities mentioned above. On December 7, 2017, the Board of Directors approved an amendment of the article association of CLPS and a nominal share issuance to the existing shareholders. As a result, the existing shareholders own the same percentage of ownership in CLPS as their ownership interests in CLPS Shanghai prior to the reorganization.

CLIVST is a subsidiary of Qinheng. FDT-CL, a former subsidiary of Qinheng ceased operation and deregistered on March 15, 2019. JQ Technology Co., Limited (“JQ”) and JIALIN Technology Limited (“JL”) were subsidiaries of Qiner beginning from October 17, 2017 and were sold in November, 2018. CLPS Dalian Co., Ltd. (“CLPS Dalian”), CLPS Ruicheng Co., Ltd. (“CLPS RC”), CLPS Beijing Hengtong Co., Ltd. (“CLPS Beijing”), CLPS Technology (Singapore) Pte. Ltd. (“CLPS SG”), CLPS Technology (Australia) Pty Ltd. (“CLPS AU”), CLPS Technology (Hong Kong) Co., Limited (“CLPS Hong Kong”), Judge (Shanghai) Co., Ltd (“Judge China”), Judge (Shanghai) Human Resource Co., Ltd (“Judge HR”), CLPS Shenzhen Co., Ltd. (“CLPS Shenzhen”) and CLPS Guangzhou Co., Ltd. (“CLPS Guangzhou”) are all subsidiaries of CLPS Shanghai.

Since the Company and its subsidiaries are controlled by the same group of shareholders before and after the reorganization, the aforementioned transactions were accounted for as a recapitalization. The consolidation of the Company and its subsidiaries has been accounted for at historical cost and prepared on the basis as if the aforementioned transactions had become effective as of the beginning of the first period presented in the consolidated financial statements.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS - continued

Details of the subsidiaries of the Company are set out below:

Name of Entity	Date of Incorporation/ Acquisition	Place of Incorporation	% of Equity Ownership	Principal Activities
Qinheng Co., Limited (“Qinheng”)	Incorporated on June 9, 2017	Hong Kong, China	100%	Holding Company
Qiner Co., Limited (“Qiner”)	Incorporated on April 21, 2017	Hong Kong, China	100%	Holding Company
CLIVST Ltd. (“CLIVST”)	Incorporated on July 25, 2017	British Virgin Islands	100%	Holding Company
Shanghai Qincheng Information Technology Co., Ltd. (“CLPS QC” or “WOFE”)	Incorporated on August 4, 2017	Shanghai, China	100%	Holding Company
ChinaLink Professional Service Co., Ltd. (“CLPS Shanghai”)	Incorporated on August 30, 2005	Shanghai, China	100%	Software development
CLPS Dalian Co., Ltd. (“CLPS Dalian”)	Incorporated on May 25, 2011	Dalian, China	100%	Software development
CLPS Ruicheng Co., Ltd. (“CLPS RC”)	Incorporated on June 26, 2013	Shanghai, China	100%	Software development
CLPS Beijing Hengtong Co., Ltd (“CLPS Beijing”)	Incorporated on March 30, 2015	Beijing, China	100%	Software development
CLPS TECHNOLOGY (SINGAPORE) PTE. LTD. (“CLPS SG”)	Incorporated on August 18, 2015	Singapore	100%	Software development
CLPS TECHNOLOGY (AUSTRALIA) PTY LTD. (“CLPS AU”)	Incorporated on November 10, 2015	Australia	100%	Software development
CLPS Technology (Hong Kong) Co., Limited (“CLPS Hong Kong”)	Incorporated on January 7, 2016	Hong Kong, China	80%	Software development
Judge (Shanghai) Co., Ltd. (“Judge China”)	Acquired on November 9, 2016	Shanghai, China	60%	Software development
Judge (Shanghai) Human Resource Co., Ltd. (“Judge HR”)	Acquired on November 9, 2016	Shanghai, China	42%	Software development
CLPS Shenzhen Co., Ltd. (“CLPS Shenzhen”)	Incorporated on April 7, 2017	Shenzhen, China	94%	Software development
CLPS Guangzhou Co., Ltd. (“CLPS Guangzhou”)	Incorporated on September 27, 2017	Guangzhou, China	100%	Software development
CLPS Technology (US) Ltd. (“CLPS US”)	Incorporated on June 5, 2018	Delaware, USA	100%	Network technology
Infogain Solutions PTE. Ltd. (“Infogain”)	Acquired on August 20, 2018	Singapore	80%	Software development
Tianjin Huanyu Qinshang Network Technology Co., Ltd. (“Huanyu”)	Acquired on May 24, 2019	Tianjin, China	100%	Software development

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

The accompanying consolidated financial statements have been prepared in accordance with the United States generally accepted accounting principles (“U.S. GAAP”).

The accompanying consolidated financial statements include the financial statements of CLPS and its subsidiaries. All inter-company balances and transactions have been eliminated upon consolidation. Results of subsidiaries and businesses acquired from third parties are consolidated from the date on which control is transferred to the Company.

Use of estimates and assumptions

In preparing the consolidated financial statements in conformity with U.S. GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information as of the date of the consolidated financial statements. Significant estimates required to be made by management include, but are not limited to, valuation of accounts receivable, prepayments, deposits and other assets, useful lives of property and equipment and intangible assets, goodwill impairment, the impairment of long-lived assets and investments, purchase price allocation for business combination, application of percentage-of-completion method for revenue recognition, provision for accrued expenses and other current liabilities, valuation allowance of deferred tax assets, provision for uncertain tax positions, and valuation for warrants and share-based compensation. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents primarily consist of cash and bank deposits, which are unrestricted as to withdrawal and use. The Company considers all highly liquid investment instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. The Company maintains most of its bank accounts in the PRC. Cash balances in bank accounts in PRC are not insured by the Federal Deposit Insurance Corporation or other programs.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Short-term investments

All highly liquid investments with original maturities of greater than three months, but less than twelve months, are classified as short-term investments. Short-term investments represent investments in wealth management products placed with certain financial institutions. The principal amounts of these products are not guaranteed. The Company accounts for short-term investments in accordance with ASC topic 320 (“ASC 320”), *Investments – Debt and Equity Securities* and classifies these wealth management products as “trading”. Dividend and interest income are included in earnings. Any realized gains or losses on the sale of the short-term investments, are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which gains or losses are realized.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are carried at net realizable value. An allowance for doubtful accounts is recorded in the period when loss is probable. The Company determines the adequacy of a reserve for doubtful accounts based on individual account analysis and historical collection trends. The Company establishes a provision for doubtful receivables when there is objective evidence that the Company may not be able to collect amounts due. The allowance is based on management’s best estimates of specific losses on individual customer exposures, as well as the historical trends of collections. Delinquent account balances are written-off against the allowance for doubtful accounts after management has determined that the likelihood of collection is not probable.

Prepayments, deposit and other assets

Prepayment, deposit and other assets primarily consists of advances and deposits to suppliers for purchasing goods or services that have not been received or provided and advances to employees. These advances are interest free, unsecured and short-term in nature and are reviewed periodically to determine whether their carrying value has become impaired. An allowance for doubtful accounts is recorded in the period when loss is probable.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Long-term investments

The Company holds investments in equity method and cost method investees.

Investee companies over which the Company has the ability to exercise significant influence but does not have a controlling interest and is not the primary beneficiary are accounted for using the equity method. Significant influence is generally considered to exist when the Company has an ownership interest in the voting shares of the investee between 20% and 50%, and other factors, such as representation in the investee’s Board of Directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. Under this method of accounting, the Company records its proportionate share of the net earnings or losses of equity method investees and a corresponding increase or decrease to the investment balances. Equity method adjustments include the Company’s proportionate share of investee income or loss, adjustments to recognize certain differences between the Company’s carrying value and its equity in net assets of the investee at the date of investment, impairment, and other adjustments required by the equity method. The Company evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable. An impairment loss on an equity method investment is recognized in the consolidated statements of comprehensive income (loss) when the decline in value is determined to be other-than-temporary.

Investments in entities in which the Company has no control or significant influence and is not the primary beneficiary are accounted for at cost. Cost method investments are recorded at the lower of cost or fair value. If declines in the value of cost method investments are determined to be other-than temporary, a loss is recorded in the current period in the consolidated statements of comprehensive income (loss).

Business combination

The Company accounts for all business combinations under the purchase method of accounting in accordance with ASC 805, *Business Combinations*. The purchase method of accounting requires that the consideration transferred to be allocated to net assets including separately identifiable assets and liabilities the Company acquired, based on their estimated fair value. The consideration transferred in an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total of the cost of the acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the acquiree, the difference is recognized directly in earnings.

The determination and allocation of fair values to the identifiable net assets acquired, liabilities assumed and non-controlling interest is based on various assumptions and valuation methodologies requiring considerable judgment from management. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Company determines discount rates to be used based on the risk inherent in the acquiree’s current business model and industry comparisons. Although the Company believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from forecasted amounts and the differences could be material.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Non-controlling interests

The non-controlling interests are presented in the consolidated balance sheets, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Company are presented on the face of the consolidated statement of comprehensive income (loss) as an allocation of the total income or loss for the year between non-controlling interest holders and the shareholders of the Company.

Property and equipment, net

Property and equipment, net, are stated at cost less accumulated depreciation. The straight-line method is used to compute depreciation and amortization over the estimated useful lives of the assets, as follows:

	<u>Useful life</u>
Leasehold improvements	The shorter of lease terms or the estimated useful lives
Automobiles	5 years
Equipment and office furniture	3-5 years

Expenditures for maintenance and repairs, which do not materially extend the useful lives of the assets, are charged to expense as incurred. Expenditures for major renewals and betterments which substantially extend the useful life of assets are capitalized. The cost and related accumulated depreciation of assets retired or sold are removed from the respective accounts, and any gain or loss is charged to the statement of comprehensive income (loss).

Intangible assets

Intangible assets are carried at cost less accumulated amortization and any recorded impairment. Intangible assets acquired through business combinations are recognized as assets separate from goodwill if they satisfy either the “contractual-legal” or “separability” criterion, and are measured at fair value upon acquisition.

Amortization is computed using the straight-line method over the following estimated useful lives:

	<u>Useful life</u>
Customer contracts	3 – 10 years

The Company does not have any indefinite-lived intangibles other than goodwill.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Goodwill

Goodwill represents the excess of the consideration over the fair value of the net assets acquired at the date of acquisition. Goodwill is not amortized but rather tested for impairment at least annually at the reporting unit level by applying a fair-value based test in accordance with accounting and disclosure requirements for goodwill and other indefinite-lived intangible assets. This test is performed by management annually or more frequently if the Company believes impairment indicators are present. The Company had only one reporting unit (that also represented the Company’s single operating segment) as of June 30, 2019 and 2018. Goodwill was allocated 100% to the reporting unit as of June 30, 2019 and 2018. The Company has the option to assess qualitative factors first to determine whether it is necessary to perform the two-step test in accordance with ASC 350-20, *Intangibles - Goodwill and Other*. If the Company believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative impairment test described above is required. Otherwise, no further testing is required. In the qualitative assessment, the Company considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations.

In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit to the fair value of the reporting unit based on estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit’s goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss in general and administrative expenses.

No impairment loss was provided for the years ended June 30, 2019, 2018 and 2017.

Impairment of long-lived assets

The Company reviews its long-lived assets, other than goodwill, including property and equipment and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Company measures impairment by comparing the carrying values of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amounts of the assets, the Company would recognize an impairment loss based on the excess of the carrying value over the fair value of the assets. Fair value is generally determined by discounting the cash flows expected to be generated by the asset, when the market prices are not readily available. The adjusted carrying amount of the asset becomes the new cost basis and depreciated over the asset’s remaining useful live. Long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities for the purpose of the impairment testing.

No impairment loss was provided for the years ended June 30, 2019, 2018 and 2017.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

The Company provides a comprehensive range of IT services and solutions, which primarily are on a time-and-expense basis, or fixed-price basis.

Revenue is considered realizable and earned when all of the following criteria are met: persuasive evidence of a sales arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectability is reasonably assured.

Time-and-expense basis contracts

Revenues from time-and-expense basis contracts are recognized as the related services are rendered assuming all other basic revenue recognition criteria are met. Under time-and-expense basis contracts, the Company is reimbursed for actual hours incurred at pre-agreed negotiated hourly billing rates. Clients may terminate the contracts at any time before the work is completed but are obligated to pay the actual service hours incurred through the termination date at the contract billing rates.

Fixed-price basis contracts

Revenues from fixed-price customized solution contracts require the Company to perform services for systems design, planning and integrating based on customers’ specific needs which requires significant production and customization. The required customization work period is generally less than one year. Upon delivery of the services, customer acceptance is generally required. In the same contract, the Company is generally required to provide post-contract customer support (“PCS”) for a period from three months to one year (“PCS period”) after the customized application is delivered. The type of service for PCS clause is generally not specified in the contract or stand-ready service on when-and-if-available basis.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition (continued)

Revenue is recognized using contract accounting in accordance with Accounting Standards Codification (“ASC”) 605-35-25. The revenue recognition for these contracts varies depending on the terms of the individual contracts, and may be recognized proportionally over the term of the contract. Revenue is recognized as the service is performed using the percentage of completion method of accounting, under which the total value of revenue is recognized on the basis of the percentage that total labor cost to date bears to the total expected labor costs. The Company considers labor time, the input measurement, is the best available indicator of the pattern and timing in which contract obligations are fulfilled. The Company has a long history of providing these services resulting in its ability to reasonably estimate the service hours expected to be incurred and the progress toward completion on each fixed-price customized contract based on the proportion of service hours incurred to date relative to total estimated service hours at completion. Estimated contract costs are based on the budgeted service hours, which are updated based on the progress toward completion on a monthly basis. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. To date, the Company has not incurred a material loss on any contracts.

Differences between the timing of billings and the recognition of revenues are recorded as unbilled receivables which is included in the prepayments, deposits and other assets, net, or deferred revenues on the consolidated balance sheets.

Costs incurred in advance of revenue recognition arising from direct and incremental staff costs in respect of services provided under the fixed fee contracts according to the customer’s requirements prior to the delivery of services are recoded as deferred contract costs which is included in the prepayments, deposits and other assets, net, on the consolidated balance sheets. Such deferred contract costs will be recognized upon the recognition of the related revenues.

Revenue includes reimbursements of travel and out-of-pocket expense, with equivalent amounts of expense recorded in cost of revenues.

The Company is subject to value added tax (the “VAT”) that is imposed on and concurrent with the revenues earned for services provided in the PRC. The Company’s applicable value added tax rate is 6%. VAT are recorded as reduction of revenues when incurred.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Cost of revenues

Cost of revenues mainly consisted of compensation expenses for the Company’s IT professionals, travel expenses and material costs.

Research and development expenses

Research and development expenses incurred in the development of new software modules and products in conjunction with anticipated customer projects. Technological feasibility for the Company’s software products is reached before the products are released for sale. To date, expenditures incurred after technological feasibility was established and prior to completion of software development have not been material, and accordingly, the Company has expensed all costs when incurred.

Government subsidies

Government subsidies mainly represent amounts granted by local government authorities as an incentive for companies to promote development of the local technology industry. The Company receives government subsidies related to government sponsored projects, and records such government subsidies as a liability when it is received. The Company records government subsidies as other income when there is no further performance obligation.

Advertising expenditures

Advertising expenditures are expensed as incurred and such expenses were minimal for all the periods presented. Advertising expenditures have been included as part of selling and marketing expenses.

Operating leases

A lease for which substantially all the benefits and risks incidental to ownership remain with the lessor is classified by the lessee as an operating lease. All leases of the Company are currently classified as operating leases. The Company records the total expenses on a straight-line basis over the lease term.

Employee defined contribution plan

Full time employees of the Company in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Company make contributions to the government for these benefits based on a certain percentage of the employee’s salaries. The Company has no legal obligation for the benefits beyond the contributions. The total amount is expensed as incurred.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Income taxes

The Company accounts for current income taxes in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized when temporary differences exist between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period including the enactment date. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized, when it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized.

The Company accounts for uncertainties in income taxes in accordance with ASC 740. An uncertain tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the consolidated statements of comprehensive income (loss) in the period incurred. No significant penalties or interest relating to income taxes have been incurred during the years ended June 30, 2019, 2018 and 2017. All of the tax returns of the Company’s subsidiaries in China remain subject to examination by the tax authorities for five years from the date of filing through year 2023.

Warrants

The Company issued warrants to certain consultants and underwriters in May 2018 in connection with the closing of the IPO. The warrants carry a term of five years expiring in May 2023 and are exercisable during the five-year period. The warrants are classified as equity contracts and measured at the grant date fair value. Subsequent changes in fair value are not recognized as long as the contract continues to be classified in equity. The Company, with the assistance of an independent third party valuation firm, used the Black-Scholes pricing model to estimate the fair value of warrants. The determination of estimated fair value of warrants on the grant date is mainly affected by the Company’s stock price as well as assumptions regarding a number of subjective variables. These variables include the Company’s expected stock price volatility over the expected term of the awards, a risk-free interest rate and any expected dividends.

Share-based payment

Share awards issued to employees and directors, including employee stock option plans (“ESOPs”) and restricted share units (“RSUs”) are measured at fair value at the grant date. The Company, with the assistance of an independent third party valuation firm, determined the fair value of the share options granted to employees. The Company uses the binomial lattice model to estimate the fair value of ESOPs, and uses the closing stock price at the grant date to measure the fair value of RSUs. The Company recognizes compensation expenses, net of forfeitures, using the accelerated method over the requisite service periods.

Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting ESOPs and RSUs’ forfeitures and records share-based compensation expense only for those awards that are expected to vest.

Earnings (loss) per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed using the weighted average number of common shares and potential common shares outstanding during the period, which may include RSUs, options and warrants. The computation of diluted earnings (loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts) on earnings (loss) per share.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currency

The functional currency of the Company is US\$. The functional currencies of the Company’s subsidiaries are the local currency of the country in which the subsidiary operates, which is determined based on ASC topic 830 (“ASC 830”), *Foreign Currency Matters*.

Transactions denominated in foreign currencies are re-measured into the functional currency at the exchange rates quoted by the People’s Bank of China (the “PBOC”) prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are re-measured at the exchange rates prevailing at the balance sheet dates. Non-monetary items that are measured in terms of historical costs in foreign currency are re-measured using the exchange rates at the dates of the initial transactions. Exchange gains and losses are included in the consolidated statements of comprehensive income (loss).

The Company’s financial statements are reported using US\$. The financial statements of the Company’s subsidiaries whose functional currencies are not US\$ are translated from the functional currency to the reporting currency. Assets and liabilities are translated at the exchange rates at the balance sheet dates, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as accumulated comprehensive income (loss) and are shown as a separate component of other comprehensive income (loss) in the consolidated statements of comprehensive income (loss).

Fair value of financial instruments

The Company applies ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 requires disclosures to be provided for fair value measurements.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2—Includes other inputs that are directly or indirectly observable in the marketplace.
- Level 3—Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach; and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fair value of financial instruments (continued)

Financial instruments of the Company primarily consist of cash and cash equivalents, short-term investments, accounts receivable, amounts due from underwriters on the over-allotment, escrow receivable, amounts due from related parties, cost method investments, accounts payable and other current liabilities, short-term bank loans, and amounts due to related parties. The carrying amounts of these financial instruments, except for cost method investments approximate their fair values because of their generally short maturities.

The fair value of the Company’s trading debt securities is measured using the income approach, based on quoted market interest rates of similar instruments and other significant inputs derived from or corroborated by observable market data. The Company did not disclose the fair value of its cost method investments since the fair value cannot be determined without undue cost and effort.

	Fair Value Measurements as of June 30, 2019		
	Quoted Price in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable inputs (Level 3)
<i><u>Fair value measurements</u></i>			
<i><u>Recurring</u></i>			
Short-term investments			
Trading debt securities	\$ -	\$ 1,791,697	\$ -

The Company had no financial assets and liabilities measured and recorded at fair value on a non-recurring basis as of June 30, 2019, 2018 and 2017.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the decrease in equity of the Company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Accumulated other comprehensive income (loss) of the Company includes foreign currency translation adjustments related to the Company’s subsidiaries whose functional currency is not US\$.

Statements of cash flows

In accordance with ASC 230, *Statement of Cash Flows*, cash flows from the Company’s operations are formulated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statements of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheets.

Concentrations and risks

- Foreign currency risk

A majority of the Company’s expense transactions are denominated in Renminbi (“RMB”) and a significant portion of the Company and its subsidiaries’ assets and liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People’s Bank of China (“PBOC”). Remittances in currencies other than RMB by the Company in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

The functional currency for the Company’s PRC subsidiaries is the RMB, and the financial statements are presented in U.S. dollars. The RMB depreciated by 2.0% in fiscal 2017, appreciated by 2.4% in fiscal 2018 and depreciated by 3.8% in fiscal 2019, respectively. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. The change in the value of the RMB relative to the U.S. dollar may affect the Company’s financial results reported in the U.S. dollar terms without giving effect to any underlying changes in its business or results of operations. Currently, majority of the Company’s assets, liabilities, revenues and costs are denominated in RMB.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Concentrations and risks (continued)

- Foreign currency risk (continued)

To the extent that the Company needs to convert U.S. dollars into RMB for capital expenditures and working capital and other business purposes, appreciation of RMB against U.S. dollar would have an adverse effect on the RMB amount the Company would receive from the conversion. Conversely, if the Company decides to convert RMB into U.S. dollar for the purpose of making payments for dividends, strategic acquisition or investments or other business purposes, appreciation of U.S. dollar against RMB would have a negative effect on the U.S. dollar amount available to the Company.

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash and cash equivalents, short-term investments, account receivables, amounts due from underwriters on the over-allotment, escrow receivable, note receivables, amounts due from related parties and cost method investments. As of June 30, 2019 and 2018, \$1,891,584 and \$4,012,088 of the Company’s cash and cash equivalents was on deposit at financial institutions in the PRC where there currently is no rule or regulation requiring such financial institutions to maintain insurance to cover bank deposits in the event of bank failure. As of June 30, 2018, the Company had \$81,644, \$4,005, \$5,568,360 and \$76,789 of cash and cash equivalents on deposit at financial institutions in Singapore, Australia, Hong Kong and Taiwan, respectively. As of June 30, 2019, the Company had \$450,388, \$25,444 and \$4,233,919 of cash and cash equivalents on deposit at financial institutions in Singapore, Australia and Hong Kong, respectively. The Company continues to monitor the financial strength of the financial institutions. There has been no recent history of default in relation to these financial institutions.

The Company conducts credit evaluations on its customers and generally does not require collateral or other security from such customers. The Company periodically evaluates the creditworthiness of the existing customers in determining an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers.

- Significant customers

For the years ended June 30, 2019, 2018 and 2017, one customer with its affiliates accounted for 25.7%, 30.8% and 38.6% of the Company’s total revenues, respectively. For the years ended June 30, 2019 and 2018, one customer and its affiliates accounted for 30.0% and 35.9% of the Company’s total accounts receivable balance, respectively.

Risks and uncertainties

The significant operations of the Company are located in the PRC. Accordingly, the Company’s business, financial condition, and results of operations may be influenced by political, economic, and legal environments in the PRC, as well as by the general state of the PRC economy. The Company’s results may be adversely affected by changes in the political, regulatory and social conditions in the PRC. Although the Company has not experienced losses from these situations and believes that it is in compliance with existing laws and regulations including its organization and structure disclosed in Note 1, may not be indicative of future results.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements

The Jumpstart Our Business Startups Act (“JOBS Act”) provides that an emerging growth company (“EGC”) as defined therein can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an EGC to delay adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company has adopted the extended transition period.

In May 2014, the Financial Accounting Standard Board, or FASB, issued Accounting Standards Update, or ASU, 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance substantially converges final standards on revenue recognition between the FASB and the International Accounting Standards Board providing a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company will adopt the new revenue standards using the modified retrospective approach, effective July 1, 2019. The cumulative effect of initially applying the new revenue standards will be recognized on the day of initial application and prior periods will not be retrospectively adjusted. Management’s preliminary assessment identified an area impacted by the new revenue standards as follows: Revenues from the solution development service in the fixed-price customized solution contracts will be recognized at a point of time when the performance obligations are satisfied upon the completion of services due to the Company’s lack of enforceable rights to payments before service acceptance. This is changed from using contract accounting under the current revenue standard. The Company is in the process of finalizing its adoption assessment including the quantification of the adoption impact on July 1, 2019. The Company is also in the process of implementing the appropriate changes to its business processes and controls to support recognition and disclosures under the new revenue standards.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10)*, or ASU 2016-01, which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). This ASU also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this ASU eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. ASU 2016-02 is effective for the Company’s annual reporting period ending June 30, 2020 and interim periods during the year ending June 30, 2021. The Company does not plan to early adopt the standard. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the ASU. For equity investments without readily determinable fair values, the Company will elect to use the measurement alternative defined as cost, less impairment, adjusted by observable price change. The Company anticipates that the adoption of ASU 2016-01 may increase the volatility of its other income (expense), as a result of the remeasurement of its equity investments upon the occurrence of observable price change. Management expects that the cumulative catch-up adjustment upon adoption of ASU 2016-01 will not be material.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, or ASU 2016-02, which modifies lease accounting for lessees to increase transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, or ASU 2018-10, to supersede ASU 2016-02. In addition, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, that provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity’s reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (Topic ASC 840, *Leases*). ASU 2016-02 is effective for the Company’s annual reporting period ending June 30, 2021 and interim periods during the year ending June 30, 2022. The Company does not plan to early adopt the new lease standards and the Company expects that applying the ASU 2016-02 would materially increase its assets and liabilities due to the recognition of right-of-use assets and lease liabilities on its consolidated balance sheets, with an immaterial impact on its consolidated statements of comprehensive loss and cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. This ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of the Company’s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. The amendments in this ASU are effective for the Company’s annual reporting period ending June 30, 2022 and interim periods during the year ending June 30, 2022. Early adoption is permitted. The Company is in the process of evaluating the impact of adoption of this guidance on the Company’s consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU applies to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. This ASU addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for the Company’s annual reporting period ending June 30, 2020 and interim periods during the year ending June 30, 2021. The Company did not early adopt this ASU. The adoption of ASU 2016-15 will modify the Company’s current disclosures and classifications within the consolidated statements of cash flows but they are not expected to have a material effect on the Company’s consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. Topic 740, *Income Taxes*, prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. In addition, interpretations of this guidance have developed in practice for transfers of certain intangible and tangible assets. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in U.S. GAAP. To more faithfully represent the economics of intra-entity asset transfers, the amendments in this ASU require that entities recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in this ASU do not change U.S. GAAP for the pre-tax effects of an intra-entity asset transfer under Topic 810, *Consolidation*, or for an intra-entity transfer of inventory. ASU 2016-16 is effective for the Company’s annual reporting period ending June 30, 2020 and interim periods during the year ending June 30, 2021. The Company does not expect the adoption will have material impact on the consolidation financial statements.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements (continued)

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The amendments in this update clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 is effective for the Company’s annual reporting period ending June 30, 2020 and interim periods during the year ending June 30, 2021. The Company did not early adopt this ASU. The Company does not expect the adoption will have material impact on the consolidation financial statement.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairment by eliminating Step two from the goodwill impairment test. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, versus determining an implied fair value in Step two to measure the impairment loss. The guidance begins to take effect for impairment tests performed during the fiscal year ending June 30, 2022. Earlier application is permitted. The guidance should be applied on a prospective basis. The Company is in the process of evaluating the impact of adoption of this guidance on the Company’s consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05 (“ASU 2017-05”), *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets*. ASU 2017-05 defines an in-substance nonfinancial asset and clarifies guidance related to partial sales of nonfinancial assets. ASU 2017-05 is effective for the Company’s annual reporting period ending June 30, 2020 and interim periods during the year ending June 30, 2021. The Company does not plan to early adopt the standard. The Company does not expect the adoption will have a material impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”)*, which modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. Under the new guidance, disclosure requirements on the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements are being removed; and for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee’s assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly. In addition, new disclosure requirements are added on the changes in unrealized gains and losses for the period included in other comprehensive loss for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, for certain unobservable inputs. An entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The guidance is effective for the Company beginning July 1, 2020. Earlier application is permitted. The Company is in the process of evaluating the impact of adoption of this guidance on the Company’s consolidated financial statements.

The Company does not believe other recently issued but not yet effective accounting statements, if recently adopted, would have a material effect on the Company’s consolidated balance sheets, statements of comprehensive income (loss) and statements of cash flows.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 3 – BUSINESS ACQUISITION

Acquisition of Judge China

On November 9, 2016, CLPS Shanghai acquired 60% of Judge China and its 70% owned subsidiary Judge HR from Judge Company Asia Limited (“Judge Asia”) with the final purchase price of \$480,061 (RMB 3.25 million). The Company funded the acquisition with cash consideration of \$454,388 (RMB 3.05 million) and a payable to Judge Asia of \$128,928 (RMB 0.9 million), of which \$103,255 (RMB 0.7 million) was subsequently offset with the Company’s receivables from Judge Asia.

The transaction was accounted for as a business combination using the purchase method of accounting. The purchase price allocation of the transaction was determined by the Company with the assistance of an independent appraisal firm based on the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date. The purchase price allocation to assets acquired and liabilities assumed as of the date of acquisition was as follows:

	Amounts
Cash acquired	\$ 268,014
Accounts receivable, net	325,888
Prepayments, deposits and other assets, net	67,570
Property and equipment, net	1,875
Intangible assets, net	339,883
Salaries and benefits payable	(86,483)
Tax payables	(16,147)
Accounts payable and other current liabilities	(259,361)
Deferred tax liabilities	(65,264)
Non-controlling interests	(290,994)
Goodwill	195,080
Total consideration	\$ 480,061

The intangible assets include customer contracts of \$339,883, which were acquired by Judge China in 2013 with an estimated useful life of 10 years. The goodwill is mainly attributable to the excess of the consideration paid over the fair value of the net assets acquired that cannot be recognized separately as identifiable assets under U.S. GAAP, and comprises (a) the assembled work force and (b) the expected but unidentifiable business growth as a result of the synergy resulting from the acquisition.

Pro forma financial information of Judge China is not presented as the effects of the acquisition on the Company’s consolidated financial statements were not material.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 3 – BUSINESS ACQUISITION - continued

Acquisition of Huanyu

On September 27, 2017, the Company made an investment of \$0.15 million (RMB 1,000,000) for a 30% of equity interest in Huanyu which was accounted for as an equity method investment (Note 10).

On May 24, 2019, the Company purchased the remaining 70% equity interest of Huanyu for \$0.07 million (RMB 462,000) and became the sole shareholder of Huanyu.

The transaction was accounted for as a business combination using the purchase method of accounting. As the business combination was achieved in stages, the Company remeasured its previously held 30% of equity interest in Huanyu at its acquisition date fair value of \$152,312. A loss of \$19,682 was recognized in subsidies and other income net in relation to the remeasurement. The valuation considered a discount for lack of control premium and lack of marketability applied to the fair value of the acquired business of Huanyu, which was determined using the income approach.

The purchase price allocation of the transaction was determined by the Company with the assistance of an independent appraisal firm based on the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date. The purchase price allocation to assets acquired and liabilities assumed as of the date of acquisition was as follows:

	<u>Amounts</u>
Cash acquired	\$ 79,156
Accounts receivable, net	87,674
Prepayments, deposits and other assets, net	7,707
Accounts payable and other current liabilities	(5,310)
Goodwill	<u>50,045</u>
Previous held equity interests	152,312
Cash consideration	<u>66,960</u>
Total consideration	<u>\$ 219,272</u>

The goodwill is mainly attributable to the excess of the consideration paid over the fair value of the net assets acquired that cannot be recognized separately as identifiable assets under U.S. GAAP, and comprise the expected but unidentifiable business growth as a result of the synergy resulting from the acquisition. The goodwill is not tax deductible. No intangible assets were identified from the acquisition.

Pro forma financial information of Huanyu is not presented as the effects of the acquisition on the Company’s consolidated financial statements were not material.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 3 – BUSINESS ACQUISITION - continued

Acquisition of Infogain

On August 20, 2018, CLPS SG acquired an 80% equity interest in Infogain located in Singapore from Sharma Devendra Prasad and Deepak Malhotra with the final purchase price of \$0.4 million (or approximately 576,000 Singapore dollars).

The transaction was accounted for as a business combination using the purchase method of accounting. The purchase price allocation of the transaction was determined by the Company with the assistance of an independent appraisal firm based on the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date. The most significant variables in the valuation are discount rate, terminal value, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The purchase price allocation to assets acquired and liabilities assumed as of the date of acquisition was as follows:

	<u>Amounts</u>
Cash acquired	\$ 6,843
Accounts receivable, net	458,943
Prepayments, deposits and other assets, net	14,454
Property and equipment, net	1,190
Intangible assets, net	337,685
Accounts payable and other current liabilities	(504,235)
Deferred tax liabilities	(57,406)
Non-controlling interests	(64,879)
Goodwill	227,506
Total consideration	<u>\$ 420,101</u>

Identifiable intangible assets acquired include customer contracts, which were valued using an income approach and determined to carry estimated remaining useful lives of approximately three years.

The goodwill recognized represents the expected synergies and is not tax deductible.

Pro forma financial information of Infogain is not presented as the effects of the acquisition on the Company’s consolidated financial statements were not material.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 4 – ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

	As of June 30,	
	2019	2018
Trade accounts receivable	\$ 19,345,329	\$ 16,419,182
Less: allowance for doubtful accounts	(81,745)	(151,347)
Accounts receivable, net	<u>\$ 19,263,584</u>	<u>\$ 16,267,835</u>

The movement of the allowance for doubtful accounts is as follows:

	As of June 30,	
	2019	2018
Balance at the beginning of the year	\$ 151,347	\$ 109,117
(Reversal of) Provision for doubtful accounts	(65,076)	134,021
Write off of doubtful accounts	-	(93,767)
Foreign currency translation adjustments	(4,526)	1,976
Balance at the end of the year	<u>\$ 81,745</u>	<u>\$ 151,347</u>

NOTE 5 – ESCROW RECEIVABLE

As of June 30, 2019 and 2018, the Company placed \$200,000 in an escrow account in connection with the Company’s indemnification as part of its IPO raise. The escrow shall remain in place for a period of 18 months until November 2019.

NOTE 6 – PREPAYMENTS, DEPOSITS AND OTHER ASSETS, NET

Prepayments, deposits and other assets, net consisted of the following:

	As of June 30,	
	2019	2018
Advances and deposits to suppliers	\$ 596,437	\$ 178,224
Prepaid expenses	280,290	29,484
Advances to employees	164,910	567,934
Unbilled receivables	148,329	-
Note receivables	60,842	114,979
Deferred contract costs	-	466,117
Less: allowance for doubtful accounts	(147)	(6,149)
	1,250,661	1,350,589
Less: Long term portion	(222,507)	(119,372)
Prepayments, deposits and other assets – current portion	<u>\$ 1,028,154</u>	<u>\$ 1,231,217</u>

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 6 – PREPAYMENTS, DEPOSITS AND OTHER ASSETS, NET - continued

The movement of the allowance for doubtful accounts is as follows:

	As of June 30,	
	2019	2018
Balance at the beginning of the year	\$ 6,149	\$ 41,602
Provision for doubtful accounts	(5,817)	(37,117)
Foreign currency translation adjustment	(185)	1,664
Balance at the end of the year	<u>\$ 147</u>	<u>\$ 6,149</u>

NOTE 7 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

	As of June 30,	
	2019	2018
Equipment	\$ 590,771	\$ 523,553
Office Furniture	126,279	106,576
Automobiles	80,486	83,502
Leasehold improvements	416,724	77,678
Total	1,214,260	791,309
Less: accumulated depreciation and amortization	(647,669)	(457,412)
Property and equipment, net	<u>\$ 566,591</u>	<u>\$ 333,897</u>

Depreciation expense was \$239,349, \$152,342 and \$109,356 for the years ended June 30, 2019, 2018 and 2017, respectively. No impairment loss was recognized for the years ended June 30, 2019, 2018 and 2017.

NOTE 8 – INTANGIBLE ASSETS, NET

As of June 30, 2019, intangible assets, net consisted of customer contracts of Judge China and Infogain with an estimated useful life of 10 and 3 years, respectively (Note 3).

	As of June 30,	
	2019	2018
Customer contracts	\$ 677,767	\$ 348,214
Less: accumulated amortization	(249,998)	(88,155)
Intangible assets, net	<u>\$ 427,769</u>	<u>\$ 260,059</u>

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 8 – INTANGIBLE ASSETS, NET - continued

The movement of intangible assets is as follow:

	For the year ended June 30, 2019
Balance as of July 1, 2018	\$ 260,059
Addition	337,685
Amortization	(164,351)
Foreign currency translation adjustment	(5,624)
Balance as of June 30, 2019	<u>\$ 427,769</u>

The amortization expense was \$164,351, \$53,827 and \$34,270 for the years ended June 30, 2019, 2018 and 2017. Estimated future amortization expense is as follows:

Year ending June 30,	Amortization expense
2020	\$ 165,025
2021	165,025
2022	50,983
2023	46,736
Total	<u>\$ 427,769</u>

No impairment loss was recognized for the years ended June 30, 2019, 2018 and 2017.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 9 – GOODWILL

The changes in the carrying amount of goodwill for the year ended June 30, 2019 were as follows:

	For the year ended June 30, 2019
Balance as of July 1, 2017	\$ 195,080
Reverse of goodwill arising from acquisition of Judge China *	(26,302)
Foreign currency translation adjustment	4,782
Balance as of June 30, 2018	173,560
Goodwill arising from acquisition of Infogain (Note 3)	227,506
Goodwill arising from acquisition of Huanyu (Note 3)	50,045
Foreign currency translation adjustment	(3,321)
Balance as of June 30, 2019	\$ 447,790

* The consideration of Judge China was reduced by \$26,302 due to provision made on the receivable from Judge Asia as of June 30, 2018.

The Company has only one reporting unit. For the years ended June 30, 2019, 2018 and 2017, the Company performed a qualitative assessment of the goodwill for the reporting unit based on the requirements of ASC 350-20. The Company evaluated all relevant factors, weighed all factors in their entirety and concluded that it was not more-likely-than-not that the fair value of the reporting unit was less than its carrying amount. Therefore, further impairment testing on goodwill was unnecessary as of June 30, 2019, 2018 and 2017, respectively.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 10 – LONG TERM INVESTMENTS

	As of June 30,	
	2019	2018
<i>Cost method investment</i>		
CLPS Lihong Financial Information Services Co., Ltd. (“CLPS Lihong”, formerly Lihong Financial Information Services Co., Ltd.)	\$ -	151,124
<i>Equity method investments</i>		
Huanyu	-	142,590
CLPS Lihong	844,643	-
Economic Modeling Information Technology Co., Ltd. (“EMIT”)	69,363	-
Total	\$ 914,006	\$ 293,714

Equity Method investments

a) Investment in Huanyu

On September 27, 2017, the Company and a non-controlling interest shareholder of CLPS Beijing incorporated Huanyu. The Company made an investment of \$0.15 million (RMB 1,000,000) for a 30% equity interest in Huanyu. The Company accounted the investment in Huanyu as an equity method investment due to its significant influence over the entity. On May 24, 2019, the Company purchased the remaining 70% equity interest of Huanyu for consideration of \$0.07 million (RMB 462,000) and became the sole shareholder of Huanyu (Note 3). For the period from July 1, 2018 to the acquisition date of May 24, 2019 and for the year ended June 30, 2018, 30% of Huanyu’s results of operations was income of \$35,049 (RMB 239,073) and loss of \$8,684 (RMB56,461), respectively.

b) Investment in CLPS Lihong

On March 1, 2019, the Company purchased approximately 37% equity interest in CLPS Lihong at a cash consideration of \$0.15 (RMB 1) In May 2019, the Company made capital contribution to CLPS Lihong of \$1.01 million (RMB 7 million). The Company accounts for the investment in CLPS Lihong as an equity method investment due to its significant influence over the entity. For the year ended June 30, 2019, the Company’s share of CLPS Lihong’s results of operations was loss of \$176,148 (RMB 1,201,523).

c) Investment in EMIT

On April 3, 2019, Qiner purchased a 30% equity interest of EMIT at nil consideration. In June, 2019, the Company made capital contribution to EMIT of \$0.07 million (RMB 0.5 million). The Company accounts for the investment in EMIT as an equity method investment due to its significant influence over the entity. For the year ended June 30, 2019, the Company’s share of EMIT’s results of operations was loss of \$4,230 (RMB 28,853).

Selected financial information of the equity method investees are not presented as the effects were not material.

There were no impairment indicators for the investments and no impairment losses were recognized for the years ended June 30, 2019 and 2018.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 11 – SHORT-TERM LOANS

Outstanding balances of short-term bank loans consisted of the following:

	As of June 30,	
	2019	2018
Loan from Bank of Communication	\$ 728,332	\$ 740,506
Loans from China Merchants Bank	1,456,664	1,813,483
	\$ 2,184,996	\$ 2,553,989

Short-term bank loans consisted of several bank loans denominated in RMB.

On January 3, 2018, the Company entered into a credit facility with China Merchants Bank which permits the Company to borrow up to \$1,111,712 (RMB 7,000,000). The Company borrowed \$1,111,712 (RMB 7,000,000) with an interest rate at 5.655% per annum on February 9, 2018 and repaid the loan on July 2, 2018.

On June 22, 2018, the Company entered into a revolving credit facility with China Merchants Bank (“CMB Credit Facility”) which permits the Company to borrow up to approximately \$1,543,115 (RMB 10,000,000) for the period from July 11, 2018 to July 10, 2019 with an interest rate at 5.655% per annum. The CMB Credit Facility is guaranteed by the CEO, the wife of the CEO, Chairman, and the wife of Chairman of the Company, and Shanghai Small and Medium-sized Enterprises Policy Financing Guarantee Fund Management Centre as joint guarantors. Under the credit facility, the Company borrowed a total of \$1,543,115 which was due between August 9, 2019 and January 9, 2020.

Interest expense was \$96,278, \$82,507 and nil for the years ended June 30, 2019, 2018 and 2017, respectively. The effective weighted average interest rate was 5.231% and 5.845% for the years ended June 30, 2019 and 2018, respectively. There were no borrowings in fiscal 2017.

NOTE 12 – SALARIES AND BENEFITS PAYABLE

Full time employees of the Company located in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The Company accrued for these benefits based on certain percentages of the employees’ salaries. Salaries and benefits payable included \$1,856,456 and \$3,075,391 accrued employer portion of social benefits payable to local governments as of June 30, 2019 and 2018, respectively.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 13 – RELATED PARTY TRANSACTIONS

The balances due to and due from related parties were as follows:

	As of June 30,	
	2019	2018
Due from related parties:		
Non-controlling interest shareholder of Judge China	\$ 212,736	\$ 131,321
Mr. Raymond Ming Hui Lin, CEO of the Company	17,804	-
Total	\$ 230,540	\$ 131,321
Due to related parties		
Non-controlling shareholder of JQ	-	45,615
Mr. Raymond Ming Hui Lin, CEO of the Company	-	162,727
Total	\$ -	\$ 208,342

Due from related parties mainly represents the expenses paid on behalf of the non-controlling interest shareholder of Judge China and advances to the Company’s CEO.

Due to the related parties mainly represents the unpaid bonus, dividends, wages and other benefit to the Company’s CEO and advances from non-controlling shareholder of JQ.

The CEO, the wife of the CEO, Chairman, and the wife of Chairman of the Company provided joint guarantee to the revolving credit facility entered by the Company with China Merchants Bank on June 22, 2018. (Note 11)

During the year ended June 30, 2019, the Company provided several loans with the total amount of \$820,982 to CLPS Lihong which were all repaid as of June 30, 2019. The total interest income of the loan is \$33,096 for the year ended June 30, 2019.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 14 – TAXES

(a) Corporate Income Taxes (“CIT”)

CLPS was incorporated in the Cayman Islands as an offshore holding company and is not subject to tax on income or capital gain under the laws of Cayman Islands.

CLPS Hong Kong was established in Hong Kong and is subject to statutory income tax rate at 16.5%. CLPS SG and Infogain are subject to Singapore income tax at the rate of 17%. CLPS AU was established in Australia. Australian enterprises are usually subject to a unified 30% enterprise income tax rate while CLPS AU is subject to corporate income tax at 27.5% as a small company in the fiscal 2019, 2018 and 2017. CLPS US is subject to U.S. federal tax rate at 21%.

Under the Enterprise Income Tax (“EIT”) Law of PRC, domestic enterprises and Foreign Investment Enterprises (the “FIE”) are usually subject to a unified 25% enterprise income tax rate while preferential tax rates, tax holidays and even tax exemption may be granted if qualified. EIT Law grants a preferential tax rate to High and New Technology Enterprises (“HNTEs”). In accordance with the PRC Income Tax Laws, an enterprise awarded with the “HNTE”’s certificate may enjoy a reduced EIT rate of 15%. CLPS Shanghai, the Company’s main operating subsidiary in PRC, was recognized as qualified HNTEs in 2013 and enjoyed a preferential tax rate of 15% from 2013 to 2016, and renewed in 2016 for 2016 to 2018. The impact of the preferential tax treatment noted above decreased income taxes by \$217,671, \$285,130 and \$317,488 for the fiscal 2019, 2018 and 2017, respectively. The benefit of the preferential tax treatment on net income per share (basic and diluted) was \$0.02, \$0.02 and \$0.03 for the years ended June 30, 2019, 2018 and 2017, respectively.

Income (loss) before income taxes

	For the years ended June 30,		
	2019	2018	2017
PRC	\$ 6,082,916	\$ 2,863,419	\$ 2,516,211
Non-PRC	(9,183,561)	(260,649)	(413,400)
	\$ (3,100,645)	\$ 2,602,770	\$ 2,102,811

The following table reconciles the statutory rate to the Company’s effective tax rate:

	For the years ended June 30,		
	2019	2018	2017
PRC statutory income tax rate	25.0%	25.0%	25.0%
Effect of income tax rate difference in other jurisdictions	(70.7)%	(1.8)%	4.8%
Effect of tax rate changes on deferred taxes	3.6%	-	-
Effect of PRC preferential tax rate and tax holidays	7.0%	(11.0)%	(15.1)%
R&D credits	53.4%	(18.3)%	(14.3)%
Tax receivable	5.8%	-	-
Deferred tax	(12.8)%	-	-
Change in valuation allowances	(17.0)%	7.9%	6.3%
Others	(0.3)%	(6.1)%	(12.3)%
Effective tax rate	(6.0)%	(4.3)%	(5.6)%

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 14 – TAXES - continued

(a) Corporate Income Taxes (“CIT”) (continued)

The provision (benefit) for income tax consists of the following:

	For the years ended June 30,		
	2019	2018	2017
Current income tax	\$ 86,506	\$ 95,923	\$ 102,568
Deferred income tax	100,109	(208,051)	(221,114)
Total provision (benefit) for income tax expenses	\$ 186,615	\$ (112,128)	\$ (118,546)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of June 30, 2019 and 2018, the Company had net operating loss carry forwards of approximately \$4,326,319 and \$3,752,850, respectively, from the Company’s PRC subsidiaries, which will expire between 2021 and 2024 if not utilized. As of June 30, 2019, the Company had net operating loss carry forwards of approximately \$363,442, \$225,919 and \$177,964 from its operations in Singapore, Australia and Hong Kong, respectively. The net operating losses in Singapore, Australia and Hong Kong will be carried forward indefinitely.

The significant components of the deferred tax assets are as follows:

	As of June 30,	
	2019	2018
Deferred tax assets:		
Net operating loss carry forwards	\$ 1,227,940	\$ 915,571
Accrued expenses and other	336,383	450,612
Valuation allowances	(1,186,188)	(658,452)
Total deferred tax assets	378,135	707,731
Deferred tax liabilities:		
Intangible assets	(39,914)	-
Unbilled accounts receivables	-	(169,266)
Deferred contract costs	-	(26,368)
Total deferred tax liabilities	(39,914)	(195,634)
Total deferred tax assets, net	\$ 338,221	\$ 512,097

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 14 – TAXES - continued

(a) Corporate Income Taxes (“CIT”) (continued)

Realization of the net deferred tax assets is dependent on factors including future reversals of existing taxable temporary differences and adequate future taxable income, exclusive of reversing deductible temporary differences and tax loss or credit carry forwards. As of June 30, 2019 and 2018, valuation allowances were provided against deferred tax assets in entities which were in a three-year cumulative losses position or in a continuous loss position from incorporation.

Pursuant to the PRC EIT Law, 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. At June 30, 2019 and 2018, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Company’s subsidiaries established in PRC. In the opinion of the directors of the Company, the Company’s fund will be retained in PRC for the expansion of the Company’s operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

Uncertain tax positions

The Company evaluates each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measure the unrecognized benefits associated with the tax positions. It is possible that the amount of unrecognized benefit will further change in the next 12 months; however, an estimate of the range of the possible change cannot be made at this moment. As of June 30, 2019, the Company had unrecognized tax benefits of \$128,467, all of which was offset against the deferred tax assets on tax losses carry forward, otherwise would be considered for providing valuation allowance and impacting the effective tax rate; while as of June 30, 2018, the Company did not have any significant unrecognized uncertain tax positions. The Company did not record any interest and penalties related to potential underpaid income tax expenses for the years ended June 30, 2019 and 2018, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefit was as follows:

	For the year ended June 30, 2019
Balance as of July 1, 2018	\$ -
Increases — tax positions in the current period	128,467
Balance as of June 30, 2019	\$ 128,467

As of June 30, 2019, the tax years ended December 31, 2014 through December 31, 2018 for the Company’s PRC entities remain open for statutory examination by PRC tax authorities.

(b) Tax Payables

The Company’s tax payables consists of the following:

	As of June 30,	
	2019	2018
VAT tax payable	\$ 282,340	\$ 228,477
Corporate income tax payable	113,083	96,636
Withholding tax payable	133,210	257,942
Disability insurance fund payable	363,149	299,645
Other tax payables	23,847	22,150
Total tax payables	\$ 915,629	\$ 904,850

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Company’s subsidiaries lease administrative office space under various operating leases. Rental expenses recognized using the straight line basis under operating leases amounted to \$827,593, \$730,705 and \$565,328 for the years ended June 30, 2019, 2018 and 2017, respectively.

Future minimum lease payments under non-cancelable operating leases are as follows:

Twelve months ending June 30,	Lease expense
2020	\$ 1,056,045
2021	664,528
2022	128,814
Total	<u>\$ 1,849,387</u>

Contingencies

From time to time, the Company is subject to legal proceedings, investigations, and claims incidental to the conduct of its business. The Company is currently not involved in any legal or administrative proceedings that may have a material adverse impact on the Company’s business, financial position, results of operations or cash flows.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 16 – EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per share for the periods indicated:

	For the years ended June 30,		
	2019	2018	2017
Basic (loss) earnings per share calculation:			
Numerator:			
Net (loss) income attributable to common shares	\$ (3,269,776)	\$ 2,434,463	\$ 2,047,445
Denominator:			
Weighted average common shares outstanding	13,843,764	11,517,123	11,290,000
Basic (loss) earnings per share attributable to common shares	\$ (0.24)	\$ 0.21	\$ 0.18
Diluted earnings (loss) per share calculation:			
Numerator:			
Net (loss) income attributable to common shares for calculating diluted earnings per share	\$ (3,269,776)	\$ 2,434,463	\$ 2,047,445
Denominator:			
Weighted average common shares outstanding	13,843,764	11,517,123	11,290,000
Weighted average common shares equivalents:			
Effects of dilutive securities			
Warrants	-	119,244	-
Shares used in computing diluted earnings per share attributable to common shares	13,843,764	11,636,367	11,290,000
Diluted (loss) earnings per share attributable to common shares	\$ (0.24)	\$ 0.21	\$ 0.18

For the year ended June 30, 2019, warrants, RSUs and options were excluded from the computation of diluted loss per share as the effects were antidilutive.

NOTE 17 – PUBLIC OFFERING WARRANTS

In connection with the closing of the Company’s IPO on May 24, 2018, the Company issued 283,192 warrants to several placement agents of the IPO. Each warrant entitles the warrant holder to purchase the Company’s common shares at \$4.20 or \$6.3 per share. The warrants carry a term of five years expiring in May 2023 and shall not be exercisable for a period of 180 days from May 23, 2018. During year ended June 30, 2018, no warrants were exercised. During the year ended June 30, 2019, 176,192 warrants were exercised and 99,380 common shares were issued. As of June 30, 2019 and 2018, 107,000 and 283,192 warrants were issued and outstanding, respectively.

The warrants are classified as equity contracts and measured at the grant date fair value. The Company used the Black-Scholes option pricing model to estimate the fair value of warrants. The assumptions used to value the Company’s warrants were as follows:

	For the year ended June 30, 2018
Expected term (in years)	2.75
Expected volatility	49.39%
Risk-free interest rate	2.11%

Expected term represents the weighted average period of time that the warrants granted are expected to be outstanding giving consideration to historical exercise patterns. Expected volatilities are based on similar public companies’ volatilities of the similar public companies’ common shares over the respective expected terms of share-based awards. Risk-free interest rate is based on US Treasury zero-coupon issues with maturity terms similar to the expected term on the warrants. The aggregated fair value of the public offering warrants on May 24, 2018 was \$612,223.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 18 – SHARE-BASED PAYMENT

a) The 2017 Stock Incentive Plan (the “2017 Plan”)

In November 2017, the Company’s shareholders and Board of Directors (“Board”) approved the 2017 Plan. The 2017 Plan provides for discretionary grants of, among others, RSU, stock options, stock awards and stock unit awards to key employees and directors of the Company. The purpose of the Plan is to recognize contributions made to the Company by such individuals and to provide them with additional incentive to achieve the objectives of the Company. The Board authorized up to 2,210,000 shares for grants under the terms of the 2017 Plan. The grants under the 2017 Plan generally have a maximum contractual term of ten years from the date of grant. The terms of individual agreements for various grants under the Plan will be determined by the Board (or its Compensation Committee) and may contain both service and performance conditions.

Stock options

On November 20, 2018, the Company granted an aggregate of 306,967 stock options to key employees and senior executives under the 2017 Plan. The stock options are valid for a period of 10 years from the grant date and cliff vest 25% per year in equal annual installments at the end of each anniversary over a four-year period, with the first 25% vesting on November 20, 2019 and the second, third and fourth 25% cliff vest on November 20, 2020, 2021 and 2022, respectively.

The options granted to employees are accounted for as equity awards and measured at their grant date fair value using binomial lattice model. The weighted-average grant-date fair value per share was \$3.13 for senior executives and \$2.87 for key employees, respectively. The estimated total fair value of stock options granted was \$0.9 million at the grant date. The Company recognizes the compensation expenses over the service requisite periods using the accelerated method. Share-based compensation cost of \$0.3 million was recognized for the year ended June 30, 2019.

The assumptions used to value the Company’s stock options grants were as follows:

	For the years ended June 30, 2019
Expected volatility	47%
Risk-free interest rate	3.06%
Exercise multiples	2.2~2.8
Expected dividend yield	0%
Forfeited rates	5~10%
Fair market value per common share	\$ 5.80

Expected volatilities are based on historical volatilities of the similar public companies’ common shares over the respective expected term of the share-based awards. Risk-free interest rate is based on US Treasury zero-coupon issues with maturity terms similar to the expected term on the share-based awards. The exercise multiples are the share price multiples upon which the employees are likely to exercise share options. Fair market value per common share are the market value of the Company’s stocks on the grant date.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 18 – SHARE-BASED PAYMENT - continued

a) The 2017 Stock Incentive Plan (the “2017 Plan”) (continued)

Stock options (continued)

The following table sets forth the summary of stock options activities:

	<u>Number of stock options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Grant-date Fair Value</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value</u>
Outstanding as of July 1, 2018	-				
Granted	306,967	\$ 5.25	\$ 3.00		
Exercised	-				
Forfeited or expired	(12,560)	\$ 5.25	\$ 2.87		
Outstanding as of June 30, 2019	294,407	\$ 5.25	\$ 3.01	9.4 years	117,763
Outstanding and exercisable as of June 30, 2019	-				-
Vested and expected to vest as of June 30, 2019	276,447	\$ 5.25	\$ 3.02	9.4 years	110,579

The aggregate intrinsic value in the table above represents the difference between the closing stock price on the last trading day in fiscal 2019 and the options’ respective exercise price. Total intrinsic value of options exercised for the year ended June 30, 2019 was nil.

As of June 30, 2019, there was \$0.6 million of unrecognized compensation cost, adjusted for estimated forfeitures based on historical data, related to non-vested stock options granted to the Company’s employees and directors. Total unrecognized compensation cost is expected to be recognized over a period of 3.4 years as of June 30, 2019. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 18 – SHARE-BASED PAYMENT - continued

Restricted Share Units

On July 12, 2018, the Company granted an aggregate of 671,469 restricted share units (“RSUs”) to key employees and directors under the 2017 Plan. RSUs granted to key employees and directors generally vest within two years. RSUs are valid for a period of 10 years from the grant date. RSUs cliff vest in three installments, with the first 33% vesting on the grant date, second 33% and remaining 34% vest at the end of the first and second anniversary, respectively. The weighted-average grant-date fair value per share was \$12.22 and the estimated total fair value of the RSUs granted was \$8.2 million.

On June 11, 2019, the Company granted 12,000 RSUs to a key employee under the 2017 Plan. The RSUs granted to the employee fully vest in one year after the grant date. The RSUs are valid for a period of 10 years from the grant date. The weighted-average grant-date fair value per share was \$5.91 and the estimated total fair value of the RSUs granted was \$70,920.

The weighted-average fair value per share is determined as the closing stock price at the grant date.

The Company recognizes the compensation expenses over the service requisite periods using the accelerated method. Share-based compensation cost of \$6.7 million was recognized for the year ended June 30, 2019.

The following table sets forth the summary of RSUs activities:

	<u>Number of Shares</u>	<u>Weighted- Average Grant Date Fair Value</u>
Outstanding as of July 1, 2018	-	-
Granted	683,469	\$ 12.11
Vested	(223,821)	\$ 12.22
Outstanding as of June 30, 2019	459,648	\$ 12.06

As of June 30, 2019, there was \$1.5 million of unrecognized compensation cost, adjusted for estimated forfeitures based on historical data, related to non-vested, service-based RSUs granted to the Company’s employees and directors. The RSUs are expected to be recognized over a weighted-average period of 2.0 years. The total fair value of the restricted share units vested was \$2.7 million during the year ended June 30, 2019.

b) 2019 Equity Incentive Plan (the “2019 Plan”)

In April, 2019, the Company’s shareholders and Board approved the 2019 Plan. The 2019 Plan provides for discretionary grants of, among others, stock options, stock awards and stock unit awards to key employees and directors of the Company. The purpose of the 2019 Plan is to recognize contributions made to the Company by such individuals and to provide them with additional incentive to achieve the objectives of the Company. The Board authorized up to 2,220,000 shares for grants under the terms of the 2019 Plan. No share has been granted under the 2019 Plan as of June 30, 2019.

During the year ended June 30, 2019, the Company recognized total share-based compensation expenses of \$7.02 million, including \$9,472, \$46,100 and \$6,960,517 in cost of revenues, selling and marketing expenses, and general and administrative expenses, respectively.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 19 – SHAREHOLDERS’ EQUITY

Common shares

CLPS was established under the laws of Cayman Islands on May 11, 2017. The original authorized number of common shares was 1 share with a par value of \$1.

On December 7, 2017, in order to optimize the Company’s share capital structure, the Board of Directors approved a stock split of the Company’s issued and outstanding shares of common shares at a ratio of 1-10,000. After the stock split, the Company’s issued and outstanding common shares became 10,000 shares with par value of \$0.0001. The Board of Directors also approved to amend the articles of association (the “Amendment”) to increase total authorized number of common shares from 10,000 shares to 100,000,000 shares with par value of \$0.0001. In connection with the Amendment, the Board of Directors further approved to issue 11,280,000 common shares at par value (the “Nominal share issuance”) to the existing shareholders of the Company. As a result, the existing shareholders of the Company have the same equity interests percentage in the Company as in CLPS shanghai prior to the reorganization. The Company believes it is appropriate to reflect the stock split, Amendment and the Nominal share issuance on a retroactive basis similar to share split, in accordance with SEC SAB Topic 4.

On May 24, 2018, CLPS consummated its IPO of 2,000,000 common shares with \$0.0001 par value per share. The units were sold at an offering price of \$5.25 per unit, generating total gross proceeds of \$10.5 million. Net proceeds from the IPO were \$9.5 million. The Company’s shares trade on the Nasdaq Capital Market under the trading symbol “CLPS”.

On June 8, 2018, CLPS Incorporation (the “Company”) closed on the exercise in full of the over-allotment option to purchase an additional 300,000 common shares of the Company by The Benchmark Company, LLC, the representative of the underwriters in connection with and the book running manager of the Company’s U.S. firm commitment underwritten initial public offering (“IPO”) (“Benchmark”), at the IPO price of \$5.25 per share. As a result, the Company raised gross proceeds of approximately \$1.58 million. Net proceeds from the over-allotment of approximately \$1.47 million were received on July 4, 2018.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 19 – SHAREHOLDERS’ EQUITY - continued

Additional paid-in capital

Prior to June 2018, the Company held a 70% equity interest of CLPS Beijing which primarily engages in software development. On June 27, 2018, Qiner purchased the remaining 30% equity interest of CLPS Beijing at a cash consideration of \$0.6 million from the non-controlling shareholders and became the sole shareholder of CLPS Beijing. The carrying amount of the non-controlling interests was \$91,533. The transaction was accounted for as an equity transaction and the difference of \$0.5 million between the purchase consideration and the carrying value of the non-controlling interest of CLPS Beijing was recorded in the additional paid-in capital on the consolidated balance sheets.

During the fiscal 2017, CLPS Shanghai declared dividends of \$1.3 million to its existing shareholders. \$0.7 million was paid in fiscal 2017 and \$0.6 million was paid in fiscal 2018. No dividend was declared during the years ended June 30, 2019 and 2018.

Statutory reserve and restricted net assets

The Company’s subsidiaries located in mainland China are required to make appropriations to certain reserve funds, comprising the statutory surplus reserve and the discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the PRC (“PRC GAAP”). Appropriations to the statutory surplus reserve are required to be at least 10% of the after-tax net income determined in accordance with PRC GAAP until the reserve is equal to 50% of the entity’s registered capital. Appropriations to the discretionary surplus reserve are made at the discretion of the Board of Directors. The Company allocated \$715,335, \$437,796 and \$261,949 to statutory reserves during the years ended June 30, 2019, 2018 and 2017, respectively in accordance with PRC GAAP.

PRC laws and regulations permit payments of dividends by the Company’s subsidiaries incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Company’s subsidiaries incorporated in the PRC are required to annually appropriate 10% of their net income to the statutory reserve prior to payment of any dividends, unless the reserve has reached 50% of their respective registered capital. Furthermore, registered share capital and capital reserve accounts are also restricted from distribution. As a result of the restrictions described above and elsewhere under PRC laws and regulations, the Company’s subsidiaries incorporated in the PRC are restricted in their ability to transfer a portion of their net assets to the Company in the form of dividends payments, loans or advances. Amounts of net assets restricted amounted to \$8.7 million and \$8.2 million as of June 30, 2019 and 2018, respectively. Except for the above or disclosed elsewhere, there is no other restriction on the use of proceeds generated by the Company’s subsidiaries to satisfy any obligations of the Company.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 20 – SEGMENT INFORMATION AND REVENUE ANALYSIS

The Company follows ASC 280, *Segment Reporting*, which requires that companies to disclose segment data based on how management makes decision about allocating resources to each segment and evaluating their performances. The Company has one reporting segment. The Company’s chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Company. The Company’s revenue and net income are substantially derived from enterprise application services and financial industry IT services.

The Company’s operations are primarily based in China, where the Company derives a substantial portion of their revenues. The following table presents revenues generated in domestic and overseas markets for the years ended June 30, 2019, 2018 and 2017.

	For the years ended June 30,		
	2019	2018	2017
Mainland China	\$ 60,398,820	\$ 47,196,671	\$ 30,822,390
Singapore	2,525,489	-	-
Hong Kong	1,961,763	1,414,175	362,892
Australia	46,865	210,984	176,694
Taiwan	-	116,763	-
	<u>\$ 64,932,937</u>	<u>\$ 48,938,593</u>	<u>\$ 31,361,976</u>

The following table presents revenues by the service lines for the years ended June 30, 2019, 2018 and 2017.

	For the years ended June 30,		
	2019	2018	2017
IT consulting service	\$ 61,755,355	\$ 47,159,651	\$ 29,146,470
Customized IT solution service	3,041,482	1,634,100	1,846,423
Other	136,100	144,842	369,083
Total	<u>\$ 64,932,937</u>	<u>\$ 48,938,593</u>	<u>\$ 31,361,976</u>

NOTE 21 – SUBSEQUENT EVENTS

The Company provided a loan of \$50,866 (RMB 350,000) with the term of twelve months, a loan of \$21,360 (RMB 150,000) with the term of one month and a loan of \$21,064 (RMB150,000) with the term of four months to CLPS Lihong on July 8, 2019, August 14, 2019 and September 9, 2019, respectively, with the annual interest rate of 5.655%.

On July 25, 2019, a written resolution of the board was passed and approved for Qiner to acquire a 20% interest in CLPS Hong Kong. The transaction is still in progress.

On July 31, 2019, the Company incorporated CLPS Hangzhou Co., Ltd. to develop the business in related areas.

On September 26, 2019, Qiner acquired an 80% interest in Ridik Pte. Ltd. located in Singapore from Srustijeet Mishra and Routray Sibashis with the final purchase price of \$2,305,476 (3,120,000 Singapore dollars), in the form of cash of \$1,844,380 (2,496,000 Singapore dollars) and the Company’s common shares valued at \$461,096 (624,000 Singapore dollars), respectively. The Company is still in the progress of evaluating the purchase price allocation.

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 22 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed balance sheets

	As of June 30,	
	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,471,191	\$ 5,187,478
Amounts due from underwriters on the over-allotment	-	1,472,592
Escrow receivable	200,000	-
Amounts due from subsidiaries	4,987,999	3,334,136
Prepayments, deposits and other assets, net	39,961	1,122
Total Current Assets	8,699,151	9,995,328
Escrow receivable	-	200,000
Investments in subsidiaries	12,673,565	7,417,234
Total Assets	\$ 21,372,716	\$ 17,612,562
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Salaries and benefits payable	584,280	133,488
Total Current Liabilities	584,280	133,488
Commitments and Contingencies		
Shareholders' Equity		
Common share, \$0.0001 par value; 100,000,000 shares authorized; 13,913,201 shares issued and outstanding as of June 30, 2019 and 13,590,000 shares issued and outstanding as of June 30, 2018*	1,391	1,359
Additional paid-in capital	24,276,622	17,285,543
Accumulated (deficits) retained earnings	(2,675,927)	593,849
Accumulated other comprehensive loss	(813,650)	(401,677)
Total Shareholders' Equity	20,788,436	17,479,074
Total Liabilities and Shareholders' Equity	\$ 21,372,716	\$ 17,612,562

* The shares and per share data are presented on a retroactive basis to reflect the nominal share issuance (Note 19).

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 22 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION - continued

Condensed statements of comprehensive (loss) income

	For the years ended June 30,		
	2019	2018	2017
Revenues	\$ 201,614	\$ -	\$ -
Less: Cost of revenues	(200,954)	-	-
Gross profit	<u>660</u>	<u>-</u>	<u>-</u>
General and administrative expenses	(8,651,816)	(619,892)	-
Share of profit in subsidiaries, net (Note a)	5,317,315	3,055,340	2,047,445
Other income	66,806	-	-
Other expenses	<u>(2,741)</u>	<u>(985)</u>	<u>-</u>
(Loss) profit before income tax	(3,269,776)	2,434,463	2,047,445
Benefit for income tax	<u>-</u>	<u>-</u>	<u>-</u>
Net (loss) profit	<u>(3,269,776)</u>	<u>2,434,463</u>	<u>2,047,445</u>
Other comprehensive (loss) income			
Foreign currency translation (loss) gain	<u>\$ (411,973)</u>	<u>\$ 45,593</u>	<u>\$ (94,909)</u>
Comprehensive (loss) income	<u>\$ (3,681,749)</u>	<u>\$ 2,480,056</u>	<u>\$ 1,952,536</u>

CLPS INCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. dollars (“\$”), except for number of shares)

NOTE 22 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION - continued

Condensed statements of cash flows

	For the years ended June 30,		
	2019	2018	2017
Net cash used in operating activities	\$ (3,189,448)	\$ (4,099,305)	\$ -
Net cash provided by financing activities	1,472,592	9,341,538	-
Effect of exchange rate changes on cash	569	(54,755)	-
Net (decrease) increase in cash	(1,716,287)	5,187,478	-
Cash and cash equivalents, at beginning of year	\$ 5,187,478	\$ -	\$ -
Cash, cash equivalents at the end of the year	\$ 3,471,191	\$ 5,187,478	\$ -

(a) Basis of presentation

In the Company-only financial statements, the Company’s investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since inception.

The Company records its investment in its subsidiaries under the equity method of accounting as prescribed in ASC 323-10 *Investment-Equity Method and Joint Ventures*. Such investments are presented on the balance sheets as “Investments in subsidiaries” and share of the subsidiaries’ profit or loss are shown as “Share of profit in subsidiaries, net” on the statements of comprehensive income (loss).

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted and as such, these Company-only financial statements should be read in conjunction with the Company’s consolidated financial statements.

ITEM 19. EXHIBITS

The financial statements are filed as part of this Annual Report beginning on page F-1.

<u>Exhibit No.</u>	<u>Description</u>
1.1	Form of Underwriting Agreement (2).
3.1	Memorandum and Articles of Association (1).
4.1	Specimen Share Certificate (1).
10.1	2017 Equity Incentive Plan (1).
10.2	2019 Equity Incentive Plan (3).
10.3	Form Independent Director Agreement (1).
10.4	Employment Agreement between the Company and Xiao Feng Yang (1).
10.5	Employment Agreement between the Company and Raymond Ming Hui Lin (1).
10.6	Employment Agreement between the Company and Tian van Acken (1).
10.7	ANZ Global Services and Operations (Chengdu) Company Limited Agreement (1).
10.8	Master Lease Agreement - Shanghai Pudong Software Park Co., Ltd. (1).
10.9	Form of Framework Contract for Subcontracting (1).
10.10	Form Warrant Agreement (2).
10.11	Form Lockup Agreement (2).
10.12	Escrow Indemnification Agreement (2).
10.13	Credit Agreement with China Merchants Bank Co., Ltd.
10.14	Credit Agreement with Bank of Communications Co., Ltd.
12.1	Certification of the Chief Executive Officer (Principal Executive Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.
12.2	Certification of the Chief Financial Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.
13.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
14.1	Code of Conduct and Ethics (1).
21.1	List of Subsidiaries of the Registrant (1).
23.1	Consent of Ernst & Young Hua Ming LLP.
23.2	Consent of Friedman LLP.
99.1	Charter of the Audit Committee (1).
99.2	Charter of the Compensation Committee (1).
99.3	Charter of the Nominating Committee (1).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Previously filed as part of the registration statement filed with the SEC on March 27, 2018 and incorporated by reference herein.

(2) Previously filed with the SEC as an exhibit to Report on Form 6-K and incorporated by reference herein.

(3) Previously filed as part of the registration statement filed with the SEC on April 29, 2019 and incorporated by reference herein.

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CLPS Incorporation

October 21, 2019

By: /s/ Raymond Ming Hui Lin
Name: Raymond Ming Hui Lin
Title: Chief Executive Officer
(Principal Executive Officer)

October 21, 2019

By: /s/ Tian van Acken
Name: Tian van Acken
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

China Merchants Bank Co., Ltd.

Shanghai Branch

Credit Granting Agreement

Credit Granting Agreement

Credit grantor: China Merchants Bank Co., Ltd., Shanghai Century Avenue Branch (hereinafter referred to as "Party A")

Person-in-charge: Chen Siqing

Credit applicant: CLPS Incorporation (hereinafter referred to as "Party B")

Legal representative/person-in-charge: Yang Xiaofeng

Upon application by Party B, Party A agrees to provide a line of credit (LOC) to Party B. Upon fully consultation, Party A and Party B have reached a consensus in respect of the following terms and conditions in accordance with the relevant laws and regulations, and hereby enter into this agreement.

1. Line of Credit

1.1 Party A shall grant Party B a LOC of RMB Ten Million yuan (or equivalent amount of other currencies, which shall be translated with the exchange rate published by Party A on the date when the specific business occurs, the same below), including revolving LOC and/or one-time LOC.

The varieties of credit granting under the LOC includes but is not limited to credit for loan/order-related loan, trade financing, bill discounting, commercial bill acceptance, guaranteed discount for commercial acceptance bills, international/domestic letter of guarantee, customs duties and dues payment guarantee, corporate account overdraft, derivative transaction and gold leasing or the combination thereof.

The revolving LOC refers to the maximum amount of total principal balance of the credit for one or more business varieties mentioned in the preceding paragraph granted by Party A to Party B occurred during the credit period, which can be repeatedly used in a revolving manner.

The one-time LOC means that the cumulative amount of credit for the business varieties mentioned in the preceding paragraph granted by Party A to Party B occurred during the credit period shall not exceed the one-time LOC approved by Party A. Party B shall not use the one-time LOC in a revolving manner, and the amount of each credit granting applied by Party B under the LOC shall offset the amount of one-time LOC until the amount of LOC is fully offset by the accumulated amount of all the credit granting.

"Trade financing" includes but is not limited to international/domestic letters of credit, import bill advance, delivery against bank guarantee, import bill advance under collection, packaged loans, export bill advance, export negotiation, export bill advance under collection, remittance financing for import/export, and credit insurance financing, factoring, bill avalization and other business varieties.

1.2 If Party A conducts import factoring or domestic buyer factoring with Party B as the debtor, the account receivable owed by Party B transferred to Party A in such business shall offset the above-mentioned LOC; if Party B applies for domestic seller factoring or export factoring to Party A, the basic acquisition price (basic acquisition funds) provided by Party A to Party B using its own funds or other legal funds shall offset the above-mentioned LOC.

1.3 Where Party A, according to the needs of its internal processes, entrusts other branches of China Merchants Bank to issue a subsidiary letter of credit to the beneficiary after issuing the master letter of credit, the bill advance and delivery against bank guarantee that occurs under such letter of credit shall offset the above-mentioned LOC;

When the import letter of credit is used, if the import bill advance is actually incurred later under the same letter of credit, the import letter of credit and import bill advance shall offset the same amount at different stages. That is, when the import bill advance occurs, the amount recovered after the letter of credit is paid, if re-used for import bill advance, shall be deemed to offset the same amount under the original import license.

1.4 The LOC exclude the amount of credit corresponding to the security deposit or pledge of deposit provided by Party B or a third party for a single specific transaction under this Agreement, the same below.

1.5 The unsettled balance for business conducted under the (insert the name and No. of agreement) previously entered by Party A (or Party A's subsidiary) and Party B are automatically incorporated in this Agreement and shall offset the LOC under this Agreement.

2. Credit Period

The credit period shall be 12 months, from July 11, 2018 to July 10, 2019. Party B shall submit application for using the credit line to Party A during the credit period, and Party A does not accept the application for using the credit line submitted by Party B after the expiration of the credit period, except as otherwise provided in this Agreement.

3. Types and Scope of Credit Line

The types of LOC under this Agreement (revolving LOC or one-time LOC), the applicable types of credit granting, the amount of LOC under each type of credit granting, the transferability of different types of credit granting, and the specific conditions for use, etc. are subject to the approval of Party A. If Party A makes adjustments to its original approval opinions according to the application of Party B during the credit period, the subsequent approval opinions issued by Party A constitute supplements and changes to the original approval opinions, and so on.

4. Use of LOC

4.1 The specific business agreement (whether a single agreement/application or a framework agreement) signed by Party A and Party B for each specific business under the LOC constitutes an integral part of the Credit Granting Agreement and they jointly specify the rights and obligations, etc. related to the specific business.

Party B must apply for using the LOC on a case-by-case basis and submit the materials requested by Party A. Party A shall examine and approve the application one by one. Party A has the right to comprehensively consider whether to approve based on its internal management requirements and Party B's operation, and has the right to refuse Party B's application unilaterally, without bearing any form of legal responsibility for Party B. In the event of any inconsistency between this paragraph and other terms, the agreement in this paragraph shall prevail.

The business elements such as the specific amount, interest rate, term, purpose, and expenses of each loan or other credit granting shall be determined by the specific business agreement, the business certificate confirmed by Party A, and the business record of Party A's system.

4.2 The using period of each loan or other credit granting under the LOC shall be determined according to Party B's business needs and Party A's business management rules. The expiration date of specific business may be later than the expiration date of credit period (unless otherwise requested by Party A).

4.3 During the credit period, Party A shall have the right to assess Party B's operation and financial status on a regular basis every year, and adjust the LOC available for Party B to use based on the assessment (if this provision is applicable, please place a in the).

5. Guarantee Provisions

5.1 All the debts owed by Party B to Party A under this Agreement shall be jointly and severally guaranteed by Lin Minghui, Deng Zhaohui, Yang Xiaofeng and Pan Yan, and they shall issue a separate letter of guarantee to Party A.

At the same time, the working capital loan limit of RMB Three Million yuan under this Agreement is jointly and severally guaranteed by the Shanghai Small and Medium-sized Enterprises Policy Financing Guarantee Fund Management Center. The guarantee amount is not less than 70% of the principal amount of the single loan to Party B, with the specific proportion being subject to the Guarantee Contract signed by Party A and the Shanghai Small and Medium-sized Enterprises Policy Financing Guarantee Fund Management Center when Party B use the working capital loan limit.

5.2 All debts owed by Party B to Party A under this Agreement shall be pledged by the property it owns or has the right to dispose of according to law, and the two parties shall sign a guarantee contract separately.

If the guarantor fails to sign the guarantee contract and complete the guarantee procedures in accordance with the provisions of this clause (including the debtor of account receivable raises a defense before the receivable is pledged), Party A has the right to refuse to provide credit to Party B.

5.3 Under the circumstances that the guarantor provides the guarantee for any debt owed by Party B to Party A under this Agreement using real estate, Party B shall immediately notify Party A if it knows that the collateral has been or may be included in the government demolition and land expropriation plan, and press the guarantor to continue to provide guarantees for Party B's debts in accordance with the guarantee contract using the compensation provided by the expropriator and complete the corresponding guarantee procedures in a timely manner, or provide other guarantee measures required and approved by Party A.

Under the circumstances stated in the preceding paragraph, if the guarantee needs to be reset or other guarantee measures are taken, the relevant expenses incurred shall be borne by the guarantor, with Party B being jointly and severally liable for the expenses. Party A has the right to deduct these fees directly from Party B's account.

6. Rights and Obligations of Party B

6.1 Party B shall have right to:

6.1.1 Request Party A to provide loans or other credits within the LOC in accordance with the conditions specified in this Agreement;

6.1.2 Use the LOC as stipulated in this Agreement;

6.1.3 Request Party A to keep confidential the production, operation, property, account and other information provided by Party B, unless otherwise required by laws and regulations or otherwise required by the regulatory authority; and

6.1.4 Transfer the debt to a third party after obtaining the consent of Party A.

6.2 Party B shall bear the following obligations:

6.2.1 It shall truthfully provide documents and information required by Party A (including but not limited to providing its true financial books/statements and annual financial reports in the period required by Party A, major decisions and changes in production, operation and management, withdrawal/use of funds, information related to guarantee, etc.), and all the bank accounts, account numbers and balance of deposits and loans, as well as cooperate with Party A's investigation, review and inspection.

6.2.2 It shall accept the supervision of Party A on its use of credit funds and related production operations and financial activities.

6.2.3 It shall use loans and/or other credits in accordance with the provision of this Agreement and the specific contract and/or promised purposes.

6.2.4 It shall repay the principal, interest and expenses of loans, advances and other debt under credit granting in full and on time in accordance with the provisions of this Agreement and each specific contract.

6.2.5 It shall obtain Party A's written consent if transferring all or part of the debts under this Agreement to a third party.

6.2.6 Under the following circumstances, it shall immediately notify Party A and actively cooperate with Party A to implement the guarantee measures for the safe repayment of principal, interest and expenses of loans, advances and other debt under credit granting:

6.2.6.1 Occurrence of major financial losses, asset losses or other financial crisis;

6.2.6.2 Providing a loan or guarantee for a third party, or providing a collateral (pledge) guarantee with its own property (right);

6.2.6.3 Suspension of business, revocation or cancellation of business license, filing or being filed for bankruptcy, dissolution, etc;

6.2.6.4 The controlling shareholder and other related companies fall into a major operational or financial crisis, which affects their normal operation;

6.2.6.5 The amount of the related transaction with the controlling shareholder and other related companies exceeds 10% of the net assets of Party B;

6.2.6.6 Occurrence of any litigation, arbitration or criminal or administrative penalty that has a material adverse effect on its business or property status; and

6.2.6.7 Occurrence of other significant events that may affect its ability to pay its debts.

6.2.7 It shall not neglect to manage and exercise their mature creditor's right, or dispose of existing primary property improperly or without consideration.

6.2.8 It shall obtain the written consent of Party A before carrying out major events such as merger (M&A), division, restructuring, joint venture (cooperation), transfer of property (share) rights, joint-stock reform, foreign investment, and increase of debt financing.

6.2.9 In accordance with Party A's request, it shall: (place a "√" in)

- Effect insurance for its core assets and designate Party A as the first-order beneficiary;
- Not sell or use as collateral the /___ assets designated by Party A before the settlement of the debt under the credit granting;
- Impose the following restrictions on the dividends paid to its shareholders as required by Party A before the settlement of the debt under the credit granting: /___;
- Others: /___.

6.2.10 In the event of dynamic pledge of accounts receivable, it shall guarantee that the LOC balance at any point during the credit period is lower than /___ % of the balance of pledged accounts receivable, otherwise must provide new accounts receivable recognized by Party A for pledge or pay a security deposit until the balance of the accounts receivable pledged \times /___ % + valid security deposit > LOC balance.

6.2.11 In the event that Party B provides a security deposit for pledge, it shall be obliged to add the corresponding amount of security deposit or provide other guarantee in accordance with Party A's request if the balance of the security deposit falls short of ___ % of the specific business amount due to exchange rate fluctuations.

6.2.12 It shall ensure that the payment for goods under the import transaction are collected through the account designated by Party A; in the event of export negotiation, transfer the notes and/or documents under the letter of credit to Party A.

7. Rights and Obligations of Party A

7.1 Party A shall have:

7.1.1 Right to request Party B to repay the principal, interest and expenses of the loan, advance and other debt under the credit granting under this Agreement and the specific contract in full and on time;

7.1.2 Right to request Party B to provide information related to the use of the LOC;

7.1.3 Right to know the production and operation and financial activities of Party B;

7.1.4 Right to supervise Party B's use of loans and/or other credits for the purposes specified in this Agreement and each specific contract; directly suspend or limit the corporate online banking function of Party B's account when the business needs it (including but not limited to closing the online banking, presetting the list of payment targets/single payment limit/phased payment limit, etc.), restrict the sale of settlement documents, or restrict telephone banking, mobile banking and other non-counter payment and universal cash withdrawing functions of Party B's account;

7.1.5 Right to entrust other agencies of China Merchants Bank located at the place where the beneficiary is located to issue subsidiary letter of credit to the beneficiary, according to the needs of its internal processes, after accepting Party B's application for the opening of letter of credit;

7.1.6 Right to deduct directly from the account opened by Party B at any branch of China Merchants Bank to repay the debts owed by Party B under this Agreement and each specific contract (when the debt under the credit granting is not in RMB, it has the right to deduct directly from the RMB account of Party B and purchase foreign exchange at the exchange rate published by Party A to repay the principal, interest and expenses under the credit granting);

7.1.7 Right to transfer its creditor's rights owed by Party B and notify Party B of the transfer and collect the debt in such manner as it deems appropriate, including but not limited to by fax, posts, personal delivery, and announcement in public media;

7.1.8 Right to supervise the account of Party B and entrust other agencies of China Merchants Bank other than Party A to supervise Party B's account, and control the payment of loan funds according to the loan purpose and payment scope agreed by both parties; and

7.1.9 Other rights set out in this Agreement.

7.2 Party A shall bear the following obligations:

7.2.1 It shall grant loans or other credits to Party B within the LOC in accordance with the conditions stipulated in this Agreement and each specific contract; and

7.2.2 It shall keep confidential the information of assets, finance, production and operation of Party B, except as otherwise provided by laws and regulations or otherwise required by the regulatory authority.

8. Party B specifically undertakes:

8.1 That it is a legal person duly incorporated and validly existing under the laws of PRC and have full civil capacity to sign and perform this Agreement, and its registration and annual report publicity procedures are true, legal and valid;

8.2 That it has been fully authorized by the Board of Directors or any other authorized body to sign and fulfill this Agreement;

8.3 That the documents, information, and vouchers provided by it regarding Party B, the guarantor, the mortgagor (pledgor), and the collateral (pledged property) are true, accurate, complete, and valid, without any significant errors that are inconsistent with the facts or omissions of any significant facts;

8.4 To strictly abide by covenants set out in the specific business agreements and various letters and related documents issued to Party A;

8.5 That at the time of signing this Agreement, there was no litigation, arbitration or criminal or administrative punishment that may have significant adverse consequences for Party B or Party B's major property, and such litigation, arbitration or criminal or administrative penalties will not occur during the execution of this Agreement; in the event of occurrence, Party B shall immediately notify Party A;

8.6 To strictly abide by the national laws and regulations in business activities, carry out various business in strict accordance with the business scope stipulated by the business license of Party B or approved according to law, and go through the formalities for registration, annual inspection, and the extension of term of business operation, etc. on time;

8.7 To maintain or enhance the management level, ensure the value preservation and appreciation of existing assets, and not to waive any mature claims or dispose of existing major assets improperly or without consideration;

8.8 That without the permission of Party A, it shall not pay off other long-term debts in advance, _____, and _____;

8.9 That at the signing and during the performance of this Agreement, no other significant events occur to Party B that affect the performance of its obligations under this Agreement;

8.10 That, during the validity period of this Agreement, if Party B's annual main business revenue falls short of RMB 300 million yuan, the funds withdrawn under this Agreement shall not exceed RMB 8 million yuan;

8.11 That, during the validity period of this Agreement, it shall notify Party A in writing in advance of the profit distribution, and its undistributed profit shall not be less than 2 times of the balance of LOC under this Agreement (excluding the conversion of profit into registered capital).

8.12 / _____.

9. Other expenses

In the event that this agreement needs to be notarized (excluding mandatory notarization) or other services provided by a third party, the relevant expenses shall be borne by the party as the client in the commission. If the two parties jointly act as the client, they shall each bear 50%.

In the event that Party B cannot repay the debts owed to Party A under this Agreement, Party B shall bear attorney fees, legal fees, travel expenses, announcement fees, delivery fees and all other expenses incurred by Party A to realize the creditor's rights. Party B authorizes Party A to directly deduct such expenses from Party B's bank account in Party A. If there are any shortfalls, Party B undertakes to repay the amount after receiving the notice from Party A, and Party A does not need to provide any proof.

10. Event of Default and the Settlement

10.1 It shall be deemed an event of default if:

10.1.1 Party B fails to perform or breaches the obligations set out in this Agreement;

10.1.2 The information in the representations or undertakings made by Party B under this Agreement is untrue or incomplete, or Party B breaches the requirement and does not make correction as required by Party A;

10.1.3 Party B commits a significant breach of a legally valid contract signed with other creditors and fails to satisfactorily resolve it within three months from the date of breach;

The aforesaid significant breach of contract means that due to Party B's breach, its creditors have the right to claim compensation of more than RMB_____ from Party B;

10.1.4 Party B encounters significant obstacles in listing its shares on the New Third Board or suspends its listing application; Party B is subject to warning letter, ordered corrections, restrictions on securities account trading and other self-regulatory measures for more than three times or subject to disciplinary punishment, termination of listing, etc; or

10.1.5 Other events occurs that, in the opinion of Party A, damage its legitimate rights and interests.

10.2 If one of the following circumstances occurs to the guarantor, Party A believes that it may affect the guarantor's guarantee capacity, and requires the guarantor to eliminate the adverse effects caused by it, or requires Party B to increase or replace the guarantee, but the guarantor and Party B fail to cooperate, it shall be deemed an event of default:

10.2.1 A circumstance similar to those described in Clause 6.2.6 of this Agreement occurs, or the consent of Party A is not obtained when the circumstances described in Clause 6.2.8 occur;

10.2.2 When the irrevocable letter of guarantee is issued, the actual guarantee capacity is concealed, or the authorization of relevant authority is not obtained;

10.2.3 Failure to go through formalities for the annual inspection registration and the extension of term of business operation; or

10.2.4 Neglect to manage and exercise their mature creditor's right, or disposal of existing primary property improperly or without consideration.

10.3 If one of the following circumstances occurs to the mortgagor (or pledgor), Party A believes that it may result in the invalidity of the mortgage (or pledge) or the shortfall in the value of collateral (pledged property), and requires the mortgagor (or pledgor) to eliminate the adverse effects caused by it, or requires Party B to increase or replace the mortgage (or pledge), but the mortgagor (or pledgor) and Party B fail to cooperate, it shall be deemed an event of default:

10.3.1 The mortgagor (or pledgor) does not own or has no right to dispose of the collateral (or pledged property), or there is dispute over the ownership;

10.3.2 The collateral (or pledged property) has been rented, seized, detained, supervised, or is subject to legal right of priority (including but not limited to priority of construction project), and / or such circumstances are concealed;

10.3.3 The mortgagor transfers, leases, re-collateralizes the collateral or dispose of it in any other improper manner without the written consent of Party A, or although the disposal of the collateral is consented to by Party A, the proceeds from the disposal are not used to repay the debt owed by Party B to Party A as required by Party A;

10.3.4 The mortgagor does not properly keep, maintain and repair the collateral, and thus the value of the collateral is obviously impaired; or the mortgagor acts directly jeopardize the collateral, resulting in a decrease in the value of the collateral; or the mortgagor does not effect insurance for the collateral during the mortgage period according to Party A's requirements;

10.3.5 The collateral has been or may be included in the scope of government demolition and expropriation, and the mortgagor fails to immediately inform Party A and fulfill the relevant obligations as stipulated in the mortgage contract; or

10.3.6 Where the mortgagor uses its real estate mortgaged to China Merchants Bank to provide the residual value mortgage for the business under this Agreement, the mortgagor settles the personal mortgage loan in advance without the consent of Party A before Party B pays off the debt under this Agreement.

10.4 When the guarantee under this Agreement includes the pledge of accounts receivable, if the debtor of the accounts receivable obviously deteriorates in operation, transfers property/withdraws funds to avoid debts, colludes with the pledgor to change path for the payment of receivables, causing that the collected funds are not transferred to the account designated for receivable collection, loses business reputation, loses or may lose the ability to perform contract, or other significant events affecting the debtor's solvency occurs, Party A has the right to request Party B to provide corresponding guarantee or provide new valid receivables for pledge; if Party B fails to provide, it shall be deemed an event of default.

10.5 In the event of any of the above default, Party A shall have the right to adopt the following measures, separately or simultaneously:

10.5.1 Reducing the LOC under this agreement, or stop the use of remaining LOC balance;

10.5.2 Recovering in advance the principal, interest and related expenses of loans issued within the LOC;

10.5.3 For bills that have been accepted by Party A during the credit period, or letter of credit (including subsidiary letter of credit issued by branches entrusted by Party A), letter of guarantee, and letter of delivery against bank guarantee, etc. that have been issued by Party A, Party A may request Party B to increase the amount of the security deposit (regardless of whether Party A has made advance payment), or transfer the funds in other accounts opened by Party B at Party A into its security deposit account as a security deposit for the settlement of Party A's advances under this Agreement, or hand over the corresponding funds to a third party as a security deposit for Party A's advance payment for Party B;

10.5.4 For the unpaid accounts receivable transferred from Party B to Party A under factoring, Party A has the right to request Party B to immediately fulfill repurchase obligations and take other recovery measures in accordance with the specific business agreements; for the accounts receivable transferred from Party B to Party A under factoring, Party A has the right to seek recourse from Party B.

10.5.5 Party A may directly request Party B to provide other property accepted by Party A as a new guarantee, and if Party B fails to provide new guarantee as required, a penalty shall be levied against it at a rate of /_____ % of the LOC amount under this Agreement.

10.5.6 Directly freezing/deducting deposits from any settlement account and/or other accounts opened by Party B at China Merchants Bank; and

10.5.7 Seeking recourse in accordance with this Agreement.

10.6 For the funds obtained by Party A through seeking recourse, the repayment sequence shall be from the earliest to latest according to the actual maturity date of each credit. For each credit, the repayment sequence shall be from expenses, penalty, compounded interest, penalty interest, interest, to the principal of credit, until all the principal, interests and related expenses are paid off.

Party A has the right to unilaterally adjust the above repayment sequence, unless otherwise required by laws and regulations.

11. Change and Rescission of Contract

This Agreement may be changed and rescinded upon negotiation and conclusion of a written agreement by the Parties hereto. This Agreement shall still be valid before the conclusion of the written agreement. Any Party shall not change, amend or rescind this Agreement unilaterally.

12. Miscellaneous

12.1 During the term of this Agreement, any tolerance, grace period granted by Party A for Party B's breach of contract or delay of performance, or any delay of Party A in performing any rights or interests under this Contract shall not damage, affect, or limit any rights and interests of Party A as a creditor vested by relevant laws and this Agreement, and shall neither be deemed as Party A's consent or approval to any breach of this Agreement by Party B, nor be deemed as Party A's waiver of right to take action against any existing or future default.

12.2 In the event that this Agreement or any part thereof becomes null and void for any reason, Party B shall still be liable for repaying all the debt owed to Party A under this Agreement. Under the above-mentioned circumstances, Party A shall have the right to terminate this Agreement and promptly claim for the repayment of all the debt owed by Party B under this Agreement. In the event that any change in the applicable laws and policy requirements causes the increase of costs for Party A to perform the obligations under the Agreement, Party B shall compensate Party A for the new costs as required by Party A.

12.3 Notices, requests or other documents related to this Agreement between Party A and Party B shall be sent in writing (including but not limited to by letters, faxes, e-mails, Party A's online banking, SMS or WeChat).

12.3.1 For the delivery by hand (including but not limited to delivery by lawyer/notary, express, etc.), the instrument shall be deemed to have been served when the addressee signs the receipt (in the event of rejection by the addressee, it shall be deemed to have been served on the date of rejection/return or the 7th day after mailing (whichever is earlier)); for the delivery by mail, the instrument shall be deemed to have been served at the 7th day after mailing; for the delivery by fax, email, Party A's online banking notice, SMS, WeChat or other electronic means, the instrument shall be deemed to have been served at the date when the sender's corresponding system displays that the transmission is successful.

For the notice to Party B regarding the transfer of the creditor's right or dunning published by Party A on mass media, it shall be deemed to have been served on the date of publishing.

Any Party that changes the contact address, email address, fax number, mobile number or WeChat account number shall notify the other party of the change within five working days from the date of the change, otherwise the other party shall have the right to deliver the instrument according to the original contact address or information. If the instrument is not successfully delivered due to the change of contact address, the date of return or the 7th day after delivery (whichever is earlier) shall be deemed to be the date of service. The party making the change is responsible for the losses that may arise therefrom, and the legal effect of delivery shall not be affected.

12.3.2 The above-mentioned contact address, email address, fax number, mobile number, and WeChat account number are also used as their respective address for service of notary instruments and judicial instruments (including but not limited to bill of complaint/arbitration applications, evidence, subpoenas, notice of responding to action, notice to produce evidence, notice of court session, notice of hearing, judgment/arbitration award, verdict, conciliation statement, notice for performance within a time limit and other instruments in the hearing and execution stages). The instruments shall be deemed to be served effectively if the court or notary office accepting the case delivers them in writing to such address in accordance with this Agreement (the specific criteria for service shall be implemented by reference to the provisions of paragraphs 12.3.1).

12.4 The parties hereto agree that for each business application under the trade financing, Party B shall affix the seal according to the Letter of Authorization for Reserved Specimen Seal provided by Party B to Party A, and both parties shall recognize the validity of such seal.

12.5 When Party B submits various applications under the credit granting through Party A's online banking system, Party B's digital signature generated in the form of digital certificate is a valid signature for the application. Party A has the right to fill out relevant business documents according to the application information sent online, and the authenticity, accuracy and legitimacy of the information shall be confirmed by Party B.

12.6 The supplementary written agreements entered into, upon negotiation, by the parties hereto for the matters that are not covered in this Agreement or are subject to change, and the specific contracts under this Agreement shall be regarded as annexes to this Agreement and constitute an integral part thereof.

12.7 In order to facilitate business processing, the letters or documents related to Party A's operations involving transactions under this Agreement (including but not limited to acceptance of applications, data review, lending, transaction confirmation, withholding of funds, inquiry, receipt printing, dunning, payment deduction, etc. and various notifications) may be generated or issued at any business outlet of Party A. The operations of and letters or documents issued by Party A's business outlets shall be deemed to be the acts of Party A and binding upon Party B.

12.8 The annexes to this Agreement shall constitute an integral part of this Agreement and are automatically applicable to the specific business that actually occurs between the parties hereto.

12.9 /_____.

13. Governing Laws and Settlement of Dispute

13.1 The conclusion, interpretation, and dispute settlement of this Agreement shall all be governed by the laws of the PRC (excluding Hong Kong, Macao and Taiwan laws), which protect the rights of both parties.

13.2 Any dispute arising from the performance of this Agreement shall be settled through friendly negotiation by the parties hereto. If the negotiation fails, any party may (please place a in for selection

- 13.2.1 file a suit at the people's court in the place where this Agreement is signed
- 13.2.2 file a suit at the people's court in the place where Party A is located
- 13.2.3 refer the dispute to /_____(insert the name of specific arbitrator) for arbitration, with the arbitration venue being at/_____.

13.3 If the parties hereto have this Agreement and related contracts notarized for legal enforcement, then Party A may directly apply to the people's court with jurisdiction for enforcement to collect the debt that Party B owes under this Agreement and related contracts.

14. Effectiveness of Agreement

This Agreement shall become effective after being signed (or sealed) by the legal representatives/person in charge or the authorized signatories of both parties and being affixed with the company seal/special seal for contract of both parties, and shall automatically terminate upon expiration of the credit period or full repayment of the debt and other related fees under this Agreement owed by Party B to Party A (whichever comes later).

15. Supplementary Provisions

This Agreement shall be made in _____copies, with Party A, Party B, and _____each holding one copy, which have the same legal effect.

Annex I Special Provisions regarding Online Customs Clearance (Customs Duties and Dues Payment Guarantee)

Annex II: Special Provisions regarding Buyer / Import Factoring

Annex III: Special Provisions regarding Order-related Loan

Annex IV: Special Provisions regarding Guaranteed Discount for Commercial Acceptance Bills

Annex V: Special Provisions regarding Derivative Transactions

Annex VI: Special Provisions regarding Gold Leasing

Annex VII: Special Provisions regarding Cross-border linkage Trade financing

Annex I Special Provisions regarding Online Customs Clearance (Customs Duties and Dues Payment Guarantee)

1. If Party B applies to Party A for customs duties and dues payment guarantee within the LOC, Party B shall login to electronic port system / www.easipay.net to send Party A the online payment bank guarantee order; Party A provides guarantee to Party B, within the LOC, for its payment of tax payable to the customs in the form of electronic payment guarantee letter through electronic port system / www.easipay.net (guaranteeing that the tax payable by Party B will be paid to the state treasury when the tax payable is due, and the guarantee will be reflected in the system by the information of "Payment is Successful" sent by Party A to electronic port system / www.easipay.net), realizing that the formalities for goods customs clearance are gone through at first, and the relevant import and export duties and dues are paid later within the time limit stipulated by the customs.

Party A's advance payment (regardless of whether made during the credit period) under the payment guarantee and related interest and expenses shall directly constitute debts owed by Party B to Party A and be included in the scope of the LOC.

2. Party B shall deposit a certain amount of funds in Party A as the security deposit according to the requirements of Party A (the account number shall be subject to the account automatically generated or entered when the funds are deposited), and provide counter-guarantee for Party A's tax payment guarantee.
3. Party A issues an electronic payment guarantee instrument to the customs in its capacity as the guarantor; Party B is aware and confirms that the electronic payment guarantee has the nature of independent guarantee, and the guarantee liability assumed by A to the customs is an independent demand guarantee.
4. Party B shall send a withholding order to Party A through electronic port system / www.easipay.net, and Party A shall issue a payment guarantee to the customs according to the withholding order sent by Party B; Party B shall grant Party A the right to deduct the principal and interest of the guarantee amount from its security deposit accounts concerned and the right to fill out relevant business documents according to the withholding order issued online.

The specific time, amount, etc. of each payment guarantee provided by Party A within the LOC shall be subject to Party B's online payment bank guarantee order (payment guarantee withholding order) received by Party A and stored in the online system. Party B must send the payment guarantee withholding order to Party A within the credit period, and Party A will not accept such order sent beyond the credit period.

Party A shall determine the expiration date of the single payment guarantee according to the "time limit for payment" (i.e. "date when tax payable is due") specified by the actual deduction order sent to Party A by electronic port system / www.easipay.net.

5. If Party B does not use the LOC for the customs duties and dues payment guarantee for ____ consecutive months, Party A has the right to refuse to conduct such business for Party B.
6. Party B authorizes Party A to directly deduct funds from Party B's account (including security deposit account) to pay tax to customs when the tax payable by Party B is due, without notifying Party B or obtaining Party B's consent. If the account amount is insufficient to pay, Party B guarantees that all the shortfall amount will be transferred into the account designated for tax payment within 3 days before the date when the tax payable is due, making preparation for the payment due. If Party B fails to make up the shortfall in time, Party A shall have the right to seek recourse from Party B after making advance payment to state treasury due to the obligation under the payment guarantee, and shall have the right to levy a penalty against Party B at an annual rate of % of the advance amount according to the actual days counted from the date when the advance payment is made.
7. Party A shall charge a guarantee fee quarterly at an annual rate of % of the actual transaction amount under the online payment bank guarantee.
8. If Party B fails to fulfill its obligations under the Credit Granting Agreement or this Annex, or if any statement, undertakings or guarantee made by it is untrue, Party A shall have the right to take any remedy measures set out in the Credit Granting Agreement, and to require a security deposit from Party B equal to 100% of the total amount of the payment guarantee provided by Party A under which no claim has occurred.

Annex II: Special Provisions regarding Buyer / Import Factoring

1. Definition

1.1 The buyer/import factoring means that Party A, as the buyer/import factor, provides approved payment, accounts receivable dunning and management and other comprehensive factoring services for seller/export factor after the seller/export factor transfers to it the accounts receivable (under a business contract) of which Party B is the debtor.

Under the buyer/import factoring, if the buyer's credit risk occurs, Party A shall be liable to seller/export factor for approved payment; if a dispute arises during the performance of the business contract, Party A shall have the right to re-transfer to the seller/export factor the accounts receivable transferred to it.

1.2 The seller/export factor is the party that signs a factoring agreement with the supplier/service provider (creditor of an account receivable) under the business contract and to which the account receivable held by the creditor thereof is transferred. Party A may act both as a buyer/import factor and as a seller/export factor.

1.3 The dispute refers to the defense, counter claim, offset or other similar acts filed by Party B in respect of the accounts receivable transferred to Party A due to any dispute related to the goods, services, invoices or any other commercial contracts related matters between the creditor of the accounts receivable and Party B, and the acts of a third-party to make a claim on or apply for the freezing of the accounts receivable under this Agreement. If the accounts receivable transferred to Party A cannot be recovered in full or in part due to non-buyer's credit risk, it shall be deemed to be a dispute.

1.4 Business contract: refers to the transaction contract signed between Party B and the creditors of the accounts receivable for the purpose of commodity trading and/or service trading, with sale on credit as the settlement method.

1.5 Approved payment / guaranteed payment means that after the occurrence of buyer's credit risk, Party A shall pay the corresponding amount of the account receivable to the seller/export factor within a certain period after the account receivable is mature.

2. Upon application by Party B, Party A agrees to conduct buyer/import factoring for it within the LOC. the funds and related expenses paid by Party A as the buyer/import factor for performing the obligations of the approved payment shall be deemed as the credit granted by Party A to Party B under the Credit Granting Agreement.

As long as an account receivable is transferred to Party A during the credit period, Party A shall have the right to seek recourse from Party B in accordance with the provisions of the Credit Granting Agreement and the business contracts, even if it performs the obligations of the approved payment beyond the credit period.

3. Commission fees of buyer/import factoring

Commission fees of factoring: mean the business management fee that should be charged by Party A for the buyer/import factoring services, which shall be charged by Party A from Party B according to a certain percentage of the amount of accounts receivable at the time of transfer, with the specific rate being reasonably determined by Party A in accordance with its business rules.

4. Party B shall waive the right to raise an objection based on disputes arising during the performance of the business contract. In view of this, regardless of whether there are other agreements, if Party B fails to make payment in accordance with the provision of the business contract, it shall be deemed as the occurrence of the buyer's credit risk; Party A will make the approved payment, and Party B will raise no objection.

Annex III: Special Provisions regarding Order-related Loan

1. The order-related loan means the loan lent by Party A to Party B based on the business contract (or engineering contract) signed between Party B and its downstream customers, used for the performance of the business contract (or the engineering contract) for the business unit, with the proceeds from the business contract (or engineering contract) being the first source for the repayment of the loan.
2. Party B shall open a special account at Party A for the collection of proceeds under the business contract (or engineering contract). All sales under the business contract (or engineering contract) based on which the order-related loan is applied must be directly paid to the special account; without the approval of Party A, the funds may not be used and the special account may not be changed. Party B shall notify the payer that the account is the only account for the payment of sales proceeds. Party A has the right to deduct the funds from the special account for the repayment of the principal and interest, penalty interest and other related expenses of the order-related loan.
3. Under any of the following circumstances, Party A may immediately stop the use of remaining LOC balance under the Credit Granting Agreement, and take remedy measures in accordance with the Credit Granting Agreement:
 - 3.1 The downstream customers of Party B have delayed in payment for three consecutive periods, and Party A has reasonably judged that their financial status has deteriorated, which is not conducive to protecting Party A's creditor's rights; and
 - 3.2 Party B's supplier qualification is canceled by its downstream customers, Party B's supply to the downstream customers is not timely, the product quality is unstable, Party B fails to make progress in construction as scheduled in the engineering contract, which is not recognized by the downstream customers, the industry practice qualification of Party B has been lowered, which results in its failure to meet the requirements of downstream customers, Party A has reasonably judged that Party B is difficult to operate and its financial status deteriorates, the funds collected from downstream customers is less than the monthly total repayment amount of financing contracts under the credit granting for three consecutive months, or the downstream customers fail to pay the installments as agreed in the engineering contract for two consecutive period.

Annex IV: Special Provisions regarding Guaranteed Discount for Commercial Acceptance Bills

1. The guaranteed discount for commercial acceptance bills is a service that Party A undertakes to discount the commercial acceptance bills accepted by Party B or allows the bill holder to apply for discount to any branch of China Merchants Bank (hereinafter referred to as "other discount acceptance banks"). The holder (hereinafter referred to as the "discount applicant") may apply to Party A or other discount acceptance banks for discounting such commercial acceptance bills. Such discount services shall offset the LOC under this Agreement.

In view that the guaranteed discount for commercial acceptance bills provided by Party A for Party B is the prerequisite for other discount acceptance banks to accept the bill holder's application for discounting, other discount acceptance banks have the right to transfer the discounted bills to Party A after the discounting, and Party A is obliged to accept the transfer. For the commercial acceptance bills transferred from other discount acceptance banks to Party A, Party B undertakes to pay the bills unconditionally on the maturity date, and the parties hereto have no objection.

2. The commercial acceptance bills mentioned in this clause include both paper commercial acceptance bills and electronic commercial acceptance bills (hereinafter referred to as "electronic bills"); both commercial acceptance bills with discount interest being paid by discount applicant and commercial acceptance bills with discount interest being paid by buyer.

The discount of commercial acceptance bills with discount interest being paid by buyer means bill discount that the discount interest is paid by Party B when the commercial acceptance bills issued and accepted by it are discounted.

3. During the credit period, Party B shall open a commercial acceptance bill security deposit account in Party A (the account number shall be subject to the account automatically generated or entered when the security deposit are deposited), and deposit a certain amount of funds in the security deposit account according to the requirements of Party A before the discount guarantee is issued for each commercial bill, which shall be used as the security deposit for the payment of commercial acceptance bill accepted by Party B that Party A undertakes to discount.

Party B shall deposit the full amount of the bill payable in the security deposit account opened at Party A before the maturity of each commercial acceptance bill, making preparation for the payment of bills due.

4. During the credit period, the discount applicant may apply directly to Party A for discounting the commercial acceptance bill accepted by Party B, or apply to other discount acceptance banks for discounting. Party A or other discount acceptance banks have the right to examine the qualification of discount applicants, and have the right to request Party B to confirm upon review, and determine on its own whether to conduct the discount.

After conducting discount, the other discount acceptance banks shall have the right to transfer the discounted commercial acceptance bills to Party A in accordance with the relevant rules of China Merchants Bank. When Party A require Party B to pay a commercial acceptance bill after discounting the commercial acceptance bill or receiving the commercial acceptance bill discounted by other discount acceptance banks, Party B shall unconditionally, fully and timely pay Party A the amount of bill payable.

5. The issuing and discounting of each electronic bill shall be subject to the business information stored in the PBOC electronic bill system, or the business records such as customer statements filled or printed according to it. The business records of Party A shall constitute an integral part of this Agreement and have the same legal effect as this Agreement: Party B acknowledges the accuracy, authenticity and legality of such records.
6. If any dispute arises from the underlying contract of the commercial acceptance bill that Party A undertakes to discount within the LOC, Party B shall settle the dispute with the relevant parties themselves; before the maturity of each bill, Party B shall still be obliged to fully and timely deposit the security deposit and the bill amount according to the foregoing agreement.
7. Where Party A has discounted the commercial acceptance bill accepted by Party B or has received the commercial acceptance bill accepted by Party B from other discount acceptance banks, Party A shall have the right to deduct funds from any account opened by Party B at Party A for the payment of bill amount if Party B fails to provide full amount of the bill payable before the maturity date of the commercial acceptance bill. For the advance payment made by Party A due to the insufficiency of amount provided by Party B and the insufficient balance of its account, Party A shall have the right to levy a penalty against Party B at a rate of %*cc* of the amount of advance payment in accordance with the relevant provisions of the Measures for Payment and Settlement.

Annex V: Special Provisions regarding Derivative Transactions

1. A derivative transaction for which Party A accepts the application of Party B may offset the LOC according to a certain percentage of the nominal principal/transaction amount of the transaction, or when floating loss occurs to the derivative transaction, Party A may offset additional amount of LOC granted to Party B according to the specific agreement between the parties (the additional amount being offset shall be determined by Party A according to the type, duration and risk of the derivative, as well as the risk coefficient of the business corresponding to the offset LOC at the occurrence of each specific trading). The amount of LOC being actually offset shall be subject to the notice of amount of LOC being offset issued by Party A and/or trading confirmation letter/certificate and other trading documents.
2. Where there is a derivative transaction with a balance or loss during the credit period, it shall offset the LOC in accordance with the provisions of the preceding clauses, regardless of whether the transaction occurs within the credit period.

Annex VI: Special Provisions regarding Gold Leasing

1. The gold leasing service means that Party A leases the physical gold to Party B, and Party B will return the same amount of gold with the same quality after the expiration of the lease, and pay a lease fee to Party A by installment.
2. Party A may provide gold leasing service during the credit period and within the LOC according to the application of Party B. The physical gold leased out by Party A shall offset the LOC according to the value agreed in the gold lease agreement signed by both parties, and constitute debts owed by Party B to Party A.

Annex VII: Special Provisions regarding Cross-border linkage Trade financing

1. Cross-border linkage trade financing service refers to the cross-border trade financing service jointly provided by Party B and the foreign branches of China Merchants Bank (hereinafter referred to as “linkage platform”) upon application of Party B based on the real cross-border trading between Party B and foreign companies.
2. The specific varieties of cross-border linkage trade financing include, but are not limited to, back-to-back letter of credit, issuance of letter of credit by mandate, offshore financing by mandate, bill avalization, overseas credit granting by letter of guarantee and cross-border trade financing through train. The specific meanings and business rules, etc. of various services are set out by specific business agreements.
3. Under the back-to-back letter of credit, the master letter of credit of which Party B applies to Party A for the issuance shall directly offset the LOC under this Agreement, and the bill advance or advance payment made by Party A for fulfilling the obligations of issuing bank under the master letter of credit (regardless of whether made within the credit period) and related interest and expenses shall constitute the financing debts owed by Party B to Party A and be included in the scope of LOC.

Under the issuance of letter of credit by mandate/offshore financing by mandate, the letter of credit issued by and trade financing provided by the linkage platform to an overseas company (upon accepting the application by the overseas company) according to entrust by Party A based on the application of Party B shall offset LOC under this Agreement. If Party A grants the funds of import bill advance under collection or advance payment to Party B for overseas payment under the import collection, the funds of bill advance or advance payment (regardless of whether occurs within the credit period) and related interest and expenses shall directly constitute the financing debts owed by Party B to Party A and be included in the scope of LOC.

Under the bill avalization, the bill accepted by Party B avalized by Party A according to Party B’s application shall directly offset the LOC under this Agreement. If Party B fails to pay the full amount of the bill on time, Party A has the right to make advances directly for the avalized bill. Such advances (regardless of whether occur during the credit period) and related interest and expenses are included in the scope of LOC.

Under the overseas credit granting by letter of guarantee, the letter of guarantee/standby letter of credit issued by Party A according to the application of Party B shall directly offset the LOC under this Agreement. After the overseas company transfers the collection right (non-claim right) under the letter of guarantee to the linkage platform, if the linkage platform claims to Party A according to the letter of guarantee/standby letter of credit, the advances made by Party A (regardless of whether made during the credit period), and related interest and expenses shall directly constitute the financing debts owed by Party B to Party A and be included in the scope of LOC.

Under the cross-border trade financing through train, after Party A approves Party B’s trade financing according to its application, the trade financing provided directly by linkage platform to Party B shall offset the LOC under this Agreement. If Party B fails to timely repay the amount of trade financing to the linkage platform in full, Party A has the right to repay it by way of bill advance or advance payment. The bill advance or advance payment (regardless of whether made during the credit period) and related interest and expenses shall directly constitute the financing debts owed by Party B to Party A and be included in the scope of LOC.

Special Notes:

All terms & conditions of this Agreement (including annexes) are fully negotiated by the parties hereto. The Bank has brought to the attention of other parties hereto the terms of exemption or restriction of bank liability, unilateral possession of certain rights by bank, addition of liability of other parties hereto or restriction on the rights of other parties hereto, as well as having a comprehensive and accurate understanding of them. The Bank has provided corresponding explanation on the above terms & conditions at the request of other parties hereto. The parties hereto have a unanimous understanding of the terms & conditions of this Agreement.

(The content hereinafter contains no main text)

(This page is the signature page for the (Credit Granting Agreement) numbered (5202180601))

Party A:

(seal)

Person in charge or authorized signatory:

(signature/seal):

(China Merchants Bank Co., Ltd., Shanghai Century Avenue Branch)



Party B:

(seal)

Legal representative/person in charge or the authorized signatory

(signature/seal):

CLPS Incorporation



Signed on: June 22, 2018

Signed in: Pudong New Area, Shanghai

Current Fund Loan Contract

(Applicable to 531)

Bank of Communications Co., Ltd.

Current Fund Loan Contract

Important Notes

Please read the full text of this contract carefully, especially those articles marked with ▲▲. Please inquire the loaner in case of any question.

Whereas, the borrower applies to the loaner for the line of credit of current fund, both parties hereby enter into this contract through negotiations to clarify the obligations of each party.

Article 1. Definition

“Line of credit” refers to the maximum amount of balance of loan (under the revolving line of credit) or total loan (under the one-time line of credit) that the loaner may issue to the borrower according to this contract. Such line of credit may be revolving or one-time (to be used for one or several times) in accordance with this contract.

“Revolving line of credit” refers to the line of credit within which the borrower may apply for the loan for several times according to this contract.

“Balance of loan” refers to the sum of principal of the outstanding loan that the borrower obtains under this contract.

“Balance of line of credit” refers to the balance of the line of credit deducted with the balance of loan (under the revolving line of credit) or total loan (under the one-time line of credit).

“Period of line of credit” refers to the period for the loaner to issue the loan to the borrower according to the application by the borrower and this contract that it is in relation to the occurrence of loan but not the loan itself.

“Period of loan” refers to the period of each loan that both parties determine in the corresponding *Application for Use of Line of Credit of Bank of Communications* (hereinafter referred to as *Application for Use of Line of Credit*).

“Business day of bank” and “business day” refer to the day on which banks at the place of the loaner operate the corporation business, excluding legal holidays and rest days (excluding those adjusted to be business days). If any issuance, repayment, interest payment or maturity of loan lies at any non-business day, it should be postponed to the next business day.

Terms including affiliate, affiliate transaction and major investor should contain the same meaning with those contained in the *Accounting Standards for Business Enterprises No.36 – Disclosure of Affiliates* (CK [2006] No.3) published by the Ministry of Finance, as well as its subsequent revisions.

Article 2. Use of Line of Credit

2.1 Each time when needing to use the line of credit, the borrower should submit the application to the loaner at least 5 business days in advance. The borrower should fill in the *Application for Use of Line of Credit* to obtain the approval by the loaner before using the line of credit.

▲▲2.2 Use of the line of credit must meeting following conditions:

- (1) Balance of loan (under the revolving line of credit) or total loan (under the one-time line of credit) is within the line of credit;
- (2) Amount of applied loan is within the balance of line of credit;
- (3) Application date and issuance date are within the period of line of credit;
- (4) Period of loan and maturity date of loan comply with this contract;
- (5) Guarantee contract (if any) under this contract is effective and surviving, and while the guarantee contract is in the form of mortgage contract and/or pledge contract, the secured real right is already set and surviving;
- (6) The borrower has handled procedures to obtain licenses, approvals and registrations from the government necessary for the application for the loan, and such licenses, approvals or registrations are surviving;
- (7) No serious adverse change occurs in the operation status or financial status of the borrower after this contract takes effect;
- (8) Application by the borrower meets relevant rules and regulations of the loaner;
- (9) The borrower does not violate this contract;
- (10) Payment mode of the loan meets this contract and if the loaner is entrusted to make the payment, the loaner should agree with the payment;
- (11) If the loan is provided in any foreign currency, the borrower should provide the certificate providing that the loan meets relevant policies on the management of foreign currency, including but not limited to the valid purpose certificate or registration document of foreign currency;
- (12) The borrower has appointed the dedicated fund withdrawal account as required by the loaner and has signed the account management agreement.

▲▲2.3 If the loaner agrees to issue the loan, the final issuance information should be subject to the column of *Application for Use of Line of Credit* printed by the bank. *Application for Use of Line of Credit* should be regarded as the *Loan Certificate*.

▲▲2.4 If the currency of the *Application for Use of Line of Credit* is different from that of the line of credit, it should be converted at the exchange rate published by Bank of Communications Co., Ltd. in the beginning of each day only for the purpose of recognizing the balance of line of credit. If there is no available exchange rate, it should be converted by the exchange rate reasonably determined by Bank of Communications Co., Ltd.

▲▲2.5 After the borrower becomes the shareholder of the guarantor or the “actual controller” defined by the *Company Law*, the loaner may suspend or cancel the line of credit not used by the borrower until the guarantor provides the resolution made by its Board of Shareholders (General Meeting) about securing the borrower that is acceptable to the loaner.

Article 3. Interest Rate and Payment of Interest

3.1 Basic regulations on determining the interest rate

3.1.1 The interest rate should be agreed by both parties in the *Application for Use of Line of Credit* through negotiations in each use of the line of credit. Unless any specific interest rate is agreed by both parties in the *Application for Use of Line of Credit*, the specific interest rate of each loan should be determined in accordance with the type of benchmark interest rate, applicable date of benchmark interest rate, fluctuation extent/increase (decrease) value of interest rate, interest rate fluctuation rules, interest rate fluctuation cycle, interest rate fluctuation cycle unit and specific beginning date of fluctuation (if necessary) agreed in the corresponding *Application for Use of Line of Credit*.

3.1.2 Type and definition of “benchmark interest rate”: (1) “Benchmark interest rate of the People’s Bank” refers to the benchmark interest rate of RMB loan of financial institutions published by the People’s Bank of China; (2) LPR quotation of Bank of Communications refers to the quotation for benchmark interest rate of loan published by Bank of Communications Co., Ltd. on its official website; (3) LPR mean interest rate refers to the benchmark interest rate of loan published by the National Inter-bank Funding Center.

3.1.3 If the currency is RMB, daily interest rate = monthly interest rate/30, monthly interest rate = annual interest rate/12; if the currency is HKD, GBP and AUD, daily interest rate = annual interest rate/365; if the currency is USD, Euro, JPN and other foreign currencies accepted by the loaner, daily interest rate = annual interest rate/360.

▲▲3.2 Interest rate of loan

The interest rate of each loan at the time of issuance should be determined in accordance with the fluctuation extent/increase (decrease) value on the basis of the benchmark interest rate. If the “applicable date of benchmark interest rate” is set as T Day, then the benchmark interest rate to calculate the specific interest rate of the loan at the time of issuance should be determined by following rules:

If the benchmark interest rate of the People’s Bank applies, the benchmark interest rate should be the benchmark interest rate of the People’s Bank on T Day;

If LPR quotation of Bank of Communications applies, the benchmark interest rate should be the LPR value published on the latest business day before T Day, and, if no LPR is published on the latest business day before T Day, the benchmark interest rate should be the LPR value published on the former business day before that day;

If LPR mean interest rate applies, the benchmark interest rate should be the LPR value published on the latest business day before T Day, and, if no LPR is published on the latest business day before T Day, the benchmark interest rate should be the LPR value published on the former business day before that day.

3.3 Adjustment of interest rate

3.3.1 Once the interest rate is recorded in the *Application for Use of Line of Credit* as fixed, such interest rate should apply to the loan within the period of loan.

▲▲3.3.2 Once the interest rate is recorded in the *Application for Use of Line of Credit* as fluctuating, the interest rate adjustment date should be determined according to the interest rate fluctuation rules, interest rate fluctuation cycle, interest rate fluctuation cycle unit and specific beginning date of fluctuation (if necessary) agreed in the *Application for Use of Line of Credit*, and the adjusted interest rate should apply since the interest rate adjustment date.

3.3.2.1 If the benchmark interest rate is adjusted within the period of loan, the adjustment cycle of interest rate should be calculated by choosing “fluctuating at bookkeeping date” or “fluctuating at specific date” in the “interest rate fluctuation rules” since the “bookkeeping date” or “specific date”. The column of interest rate fluctuation cycle should be filled with the quantity of interest rate fluctuation cycles, the column of interest rate fluctuation cycle unit may be filled with day or month. If the quantity of interest rate fluctuation cycle is “1” while the interest rate fluctuation unit is “day”, then the adjustment date of benchmark interest rate should be the adjustment date of loan interest rate; if the quantity of interest rate fluctuation cycle is “3” while the interest rate fluctuation unit is “day”, then the adjustment date of loan interest rate should be every third day since the “bookkeeping date” or “specific date”; if the quantity of interest rate fluctuation cycle is “1” while the interest rate fluctuation unit is “month”, then the adjustment date of loan interest rate should be the end of every month since the “bookkeeping date” or “specific date”; if the quantity of interest rate fluctuation cycle is “3” while the interest rate fluctuation unit is “month”, then the adjustment date of loan interest rate should be the end of every third month since the “bookkeeping date” or “specific date”, the same below.

3.3.2.2 Loan interest rate at the adjustment date of loan interest rate should be determined according to the benchmark interest rate at the adjustment date of loan interest while the interest rate fluctuation/increase (decrease) value is kept unchanged (unless negotiated by both parties to be adjusted). If the “adjustment date of loan interest rate” is set as T Day, then the benchmark interest rate of adjusted loan interest rate should be determined by following rules:

If the benchmark interest rate of the People’s Bank applies, the benchmark interest rate should be the benchmark interest rate of the People’s Bank on T Day;

If LPR quotation of Bank of Communications applies, the benchmark interest rate should be the LPR value published on the latest business day before T Day, and, if no LPR is published on the latest business day before T Day, the benchmark interest rate should be the LPR value published on the former business day before that day;

If LPR mean interest rate applies, the benchmark interest rate should be the LPR value published on the latest business day before T Day, and, if no LPR is published on the latest business day before T Day, the benchmark interest rate should be the LPR value published on the former business day before that day.

▲▲3.3.3 If the “benchmark interest rate of the People’s Bank” is applied as the benchmark interest rate and the benchmark interest rate of the People’s Bank is adjusted to be fluctuating interest rate or cancelled, both parties should adjust the interest rate of the loan through separate negotiations but the adjusted interest rate should be no lower than the prevailing interest rate; if both parties fail to reach a common sense on the adjustment of interest rate within one month since the adjustment date of the People’s Bank, the loaner may announce the earlier maturity of the loan.

If the “LPR quotation of Bank of Communications” or “LPR mean interest rate” is applied as the benchmark interest rate and the relevant benchmark interest rate is cancelled according to the regulation requirement or suspended by the issuer according to the regulation requirement, both parties should adjust the interest rate of the loan through separate negotiations but the adjusted interest rate should be no lower than the prevailing interest rate; if both parties fail to reach a common sense on the adjustment of interest rate within one month since the relevant benchmark interest rate is cancelled or suspended, the loaner may announce the earlier maturity of the loan.

▲▲3.3.4 Both parties may adjust the fluctuation extent or increase (decrease) value of the corresponding loan interest rate through negotiation at each adjustment date of loan interest rate.

3.4 If the currency is RMB, default interest of the overdue loan should be fluctuated upwards by 50% on the basis of the interest rate specified in this contract, and that of the embezzled loan should be fluctuated upwards by 100% on the basis of the interest rate specified in this contract. If the benchmark interest rate is adjusted, the loaner may adjust the rate of default interest of each loan and apply the new rate of default interest since the adjustment date of loan interest rate specified in the *Application for Use of Line of Credit*.

3.5 Calculation of interest

3.5.1 Normal interest = interest rate specified in this contract X issued loan X days of occupation.

Days of occupation begins from the issuance date (included) and ends at the maturity date (excluded), and may be postponed if the maturity date is not a business day while the postponed period should be accounted into the occupation and charged with the interest according to this contract.

3.5.2 The default interest of overdue loan and embezzled loan should be calculated according to the overdue or embezzled amount and the actual days (since the date of overdue or embezzlement (included) to the repayment date of principal and interest (excluded)).

3.5.3 If there are too many numbers after the decimal point of the calculated interest/default interest, the loaner may round off the result to two numbers after the decimal point.

▲▲3.6 If the borrower repays the loan in advance or the loaner withdraws the loan in advance according to this contract, the corresponding interest rate shall still be subject to that specified in this contract.

3.7 If the loan is in any foreign currency, the determination of interest rate, adjustment of interest rate, default interest rate of overdue and embezzlement should be subject to Article 17 of this contract.

Article 4. Payment of Loan

4.1 If the issuance account appointed by the borrower is the dedicated loan issuance account opened at the loaner, the issuance and payment of loan should be handled through the account, which may only be used to issue and externally pay the loan fund and only sell the certificate of "Application for Settlement Business" but may not be used to handle any check, draft, bank acceptance or any other settlement. When handling the allocation of loan fund independently, the borrower must handle procedures at the counter of the bank of deposit. The deposit interest of the account should be accounted into the repayment account of the borrower.

4.2 When drawing the loan according to this contract, the borrower should clarify the payment mode (entrusted payment by loaner or independent payment by borrower) and only one mode is applicable in each time of drawing.

4.3 In the mode of entrusted payment by loaner, the loaner will, after receiving the payment entrustment from the borrower and issuing the loan according to this contract, pay the loan fund directly to the counterparty of the borrower meeting the purpose specified in this contract through the account of the borrower.

If the amount of a single payment is beyond the limit of the independent payment or any condition specified in Article 19.3, the mode of entrusted payment should apply.

When choosing the mode of entrusted payment by the loaner, the borrower should submit the loaner with the *Application for Use of Line of Credit*, corresponding payment entrustment and other materials required by the loaner (including but not limited to the commercial contract, invoice and receipt) to clarify the amount of loan and the receiver and amount of payment, while the amount of drawn loan should equal to that of the payment.

▲▲ If the payment planned by the borrower does not comply with this contract or the corresponding commercial contract, or contains any other defect, the loaner may refuse to make the payment and return the payment entrustment submitted by the borrower.

▲▲ If the loaner agrees but fails to make the payment or the payment is returned due to any incorrect information provided by the borrower, the borrower should submit relevant documents and materials containing the correct information within the period regulated by the loaner, and the loaner should be expected from any liability for any delay or failure of payment.

4.4 In the mode of independent payment by the borrower, after the loaner issues the loan fund to the account of the loaner according to this contract, the borrower pays the fund to the counterparty of the borrower meeting the purpose specified in this contract independently.

When choosing the mode of independent payment by the borrower, the borrower should submit the loaner with the *Application for Use of Line of Credit*, description of fund usage and other materials required by the loaner. The borrower should report the payment situation of the loan fund to the loaner. The loaner may check whether the loan is paid for the regulated purpose by analyzing the account, verifying the certificate and conducting the on-site survey, and the borrower shall cooperate with such verification by the loaner.

Article 5. Repayment of Loan

5.1 The borrower should make the repayment according to the date and amount specified in the corresponding *Application for Use of Line of Credit*.

▲▲5.2 Without the written consent from the loaner, the borrower may not repay the loan in advance.

▲▲5.3 The repayment schedule of principal and interest agreed by the borrower and the loaner in the *Application for Use of Line of Credit* is the true intention of both parties through negotiations on a voluntary basis. Under the repayment arrangement chosen by both parties, the principal should prior to the interest in the repayment without influencing the repayment liability of the borrower for the payable interest, and the borrower may not set up any plea against the repayment of payable interest. The borrower should be responsible for repaying all the principal and interest under any repayment arrangement.

▲▲5.4 When the amount repaid by the borrower is insufficient to cover all the debt of the borrower:

(1) It should be firstly used to repay the overdue amount. If the principal and interest are overdue for less than 90 days, the balance after such repayment should be firstly used to repay the outstanding interest, default interest or compound interest before any overdue principal; if the principal and interest are overdue for more than 90 days, the balance after such repayment should be firstly used to repay the outstanding principal and then the overdue interest, default interest or compound interest;

(2) If there are several debts of the borrower (including debts of the borrower owed to the loaner under any other contract), the loaner may determine the repayment sequence of each debt, only if such sequence does not violate any applicable law, rule, regulation, system or any compulsory regulatory provision of the loaner. The loaner should inform the borrower of the repayment result, unless otherwise regulated.

Article 6. Representation and Guarantee of Borrower

6.1 The borrower is legally incorporated and surviving, possesses all the necessary capacities, perform obligations under this contract it its own name and assumes civil liabilities.

6.2 Signing and performing this contract are the true intention of the borrower that they must obtain all the necessary approvals, permissions and authorizations to contain no legal defect.

6.3 The borrower conducts production and operation in compliance with laws and regulations, possesses the constant operation capability and legal repayment source, involves no serious environmental or social risk, possesses no serious adverse credit record and no officer of the borrower possesses any adverse record.

6.4 All the documents, statements, materials and information provided by the borrower to the lender when signing and performing this contract are authentic, accurate, complete and valid. The borrower does not conceal any information that may affect its financial status and solvency, and there is no serious adverse change to the financial status of the borrower since the issuance of the latest financial statement.

▲▲6.5 Neither the borrower nor any of its affiliate belongs to the enterprise or individual sanctioned by the UN, EU or US, or is located in any country or area sanctioned by the UN, EU or US.

Article 7. Rights and Obligations of Lender

7.1 The lender may withdraw the principal and interest (including compound interest and default interest of overdue and embezzled loan) of the loan according to this contract, collect the payable expense from the borrower, withdraw the loan in advance at its own discretion depending on the fund status of the borrower, and may exercise other rights under laws, regulations or this contract.

▲▲7.2 The lender only conducts the formal examination of materials provided by the borrower during the performance of this contract that the lender should be exempted from any liability for the failure to complete entrusted payment if the borrower provides any false, inaccurate or uncomplete material or the borrower makes the payment in violation to this contract.

▲▲7.3 The lender should issue the loan and make the payment according to this contract. The lender should be exempted from the liability if the lender fails to issue the loan or make the payment due to any cause below, but the lender should send a notice to the borrower in time: the issuance account appointed by the borrower is frozen, the account of the receiver is frozen, there is any force majeure, communication or network fault, or the system fault of the lender, unless otherwise regulated in this contract.

Article 8. Obligations of Borrower

8.1 The borrower should repay the principal and interest of loan under this contract according to the time, amount, currency and interest rate specified in this contract and the corresponding *Application for Use of Line of Credit*.

The fund collection account appointed by the borrower should be used to collect the corresponding sales income or planned repayment fund. If the corresponding sales income is not settled in cash, the borrower should ensure to allocate it to the fund collection account upon receiving it. The borrower should provide the cash flow of the fund collection upon the request from the lender.

8.2 The borrower should use the line of credit for the purpose specified in this contract and use the loan for the purpose specified in the corresponding *Application for Use of Line of Credit* but may not embezzle the loan for any other purpose, or the investment in fixed assets, equity or any production or operation prohibited by the government.

The borrower should draw the loan fund in the mode agreed by both parties but not avoid the entrusted payment by the loaner by breaking up the whole into parts; in the mode of independent payment by the borrower, the borrower should use the loan within the reasonable period required by the regulatory authority of the loaner, and the payment of loan fund should meeting this contract.

▲▲8.3 The borrower should assume the settlement expense (if any) of the payment of loan fund (including entrusted payment by the loaner and independent payment by the borrower), and the special charge standard is subject to laws, rules, regulations, regulatory provisions and the prevailing *Charge List of Services of Bank of Communications* published by the loaner.

If the issuance account is dedicated for the issuance of loan and the collection account is not opened at Bank of Communications in the payment of loan fund (including entrusted payment by the loaner and independent payment by the borrower), the fund may be processed by the payment system or local clearing system of the People's Bank.

If the issuance account is not dedicated for the issuance of loan and the collection account is not local or opened at Bank of Communications in the payment of loan fund (including entrusted payment by the loaner and independent payment by the borrower), the fund should be processed by the payment system of the People's Bank.

▲▲8.4 The borrower should cooperate with the loaner in the management of loan payment and the supervision and inspection of the use of loan and operation situation of the borrower, provide the financial statement, use record and material of the loan fund, information of affiliate and affiliate transaction, environmental and social risk report, other materials and information necessary for the after-loan risk management required by the loaner, and shall ensure the authenticity, integrity and accuracy of such documents, materials and information.

▲▲8.5 Under either circumstance below, the borrower should send a written notice to the loaner at least 30 days in advance and take no action before repaying the principal and interest under this contract or providing the repayment plan or guarantee recognized by the loaner:

(1) The borrower sells, presents, leases, lends, transfers, mortgages, pledges or disposes in any other manner all or a large part of the assets or important assets;

(2) The operation mechanism or ownership organization of the borrower suffers from any great change, including but not limited to the contracting, lease, association, corporate system transformation, joint stock cooperation system transformation, sales, combination (merger), joint venture (cooperation), separation of enterprise, establishing of subsidiary, equity transfer, ownership transfer, and decrease of capital.

(3) The external investment or increase of debt financing of the borrower exceeds the agreed limit.

▲▲8.6 The borrower should send a written notice to the loaner within 7 days since the occurrence or possible occurrence of any circumstance below:

(1) The borrower or its affiliate revises the Memorandum of Association, changes the name, legal representative (responsible person), domicile, mailing address or business scope of the enterprise, or makes any decision that affects the finance or human resource greatly;

- (2) The borrower, its affiliate or guarantor plans to apply for bankruptcy or may be or has been applied by the creditor for bankruptcy;
- (3) The borrower or its affiliate is involved in any serious lawsuit, arbitration or administrative measure, or its major assets or the guarantee under this contract is executed with the property preservation or any other compulsory measure, or the security of its major assets or the guarantee under this contract is or may be affected or the value is or may be decreased;
- (4) The borrower or its affiliate provides any guarantee to any third party to affect its economic status, financial status or capability in performing obligations under this contract significantly;
- (5) The borrower or its affiliate enters into any contract with significant influence on its operation and financial status;
- (6) The borrower repays the immature debt in advance or repay other mature debt firstly, or increases any form of guarantee for any other existing debt, or makes any arrangement with the similar effect or enters into any relevant document;
- (7) The borrower, its affiliate or guarantor is shut down, closed, dissolved, suspended, cancelled, or the business license is withdrawn;
- (8) The borrower or its affiliate, major investor of the borrower or its affiliate, legal representative (responsible person), director or officer of the borrower or its affiliate is missing or involved in any violation, to any law, regulation or rule of stock exchange, or suffers from any abnormal change;
- (9) The borrower or its affiliate suffers from serious difficulty or deterioration of financial status in the operation, or there is any other event with adverse influence on the operation, financial status, solvency or economic status of the borrower or its affiliate;
- (10) There is any affiliated transaction and its amount reaches or exceeds 10% of the latest audited net assets;
- (11) Before repaying all the debts under this contract, the borrower becomes or may become the shareholder or the “actual controller” defined by the *Company Law* of the guarantor;
- (12) The borrower or its affiliate causes any liability accident or is made public by the media by violating any law, rule, regulation, national policy or industrial standard;
- (13) The borrower or its affiliate encounters any safety or environment protection accident;
- (14) The relationship between the affiliate and the borrower is changed;
- (15) The borrower or its affiliate encounters any significant equity change;
- (16) The opinion issued by the external audit of the borrower on its financial statements is not the standard unreserved opinion;

(17) The borrower is or may be investigated, punished or taken with other similar measures by the competent authority as it violates the law or rule and/or regulatory requirement;

(18) The borrower or its affiliate is listed to be sanctioned by the UN, EU or US, or the country or area where the borrower or its affiliate resides in is listed to be sanctioned by the UN, EU or US;

(19) There is any other event with serious adverse influence on the solvency of the borrower or its affiliate.

▲▲8.7 In case of any change of guarantee under this contract that is adverse to the creditor's right of the loaner, the borrower should provide other guarantee recognized by the loaner in time.

The "change" specified here includes but not limited to: merger, separation, shutdown, dissolution, suspension, cancellation, withdrawal of business license, and applying or being applied for bankruptcy of the guarantor; significant change of the operation or financial status of the guarantor; the guarantor is involved in any serious lawsuit, arbitration or administrative measures, or the major assets is taken with property preservation or other compulsory measure; the security of the guarantee is or may be affected; the value of the guarantee is or may be decreased, or taken with measures of property preservation, such as sealing; the guarantor or its legal representative (responsible person) or officer violates any law, regulation or applicable rules of stock exchange; the guarantor (when it is an individual) is missing or dead (announced to be dead); the guarantor breaches the guarantee contract; there is any dispute between the guarantor and the borrower; the guarantor requires cancelling the guarantee contract; the guarantee contract does not take effect, or is invalid or cancelled; the secured real right is not set up or take effect; any other event affecting the security of the creditor's right of the loaner.

▲▲8.8 The borrower promises: during the period since the signing date of this contract to the date at which the principal, interest and relevant expenses of the loan under this contract are paid off, the financial index, external rating, as well as production and operation qualification/license of the borrower will always comply with this contract, and such production and operation qualification/license will pass the annual inspection if necessary.

8.9 The borrower guarantees to obey laws, rules and relevant policies about the anti-money laundering of the government that it will not conduct any activity involving money laundering or terrorism financing, cooperate with the loaner in identifying the customer, keeping the transaction record, and reporting the large-amount and suspected transaction.

8.10 The borrower guarantees that the borrower, together with any of its employee or agent will not offer, present, require or receive any form of material interest not included in this contract to or from the loaner or its employee (including but not limited to cash, physical card, tour, etc.) or any other non-material interest; or use the fund or service provided by the loaner to any activity in relation to the corruption or bribery in any manner, whether directly or indirectly; once becoming aware of any circumstance breaching this article, the borrower should provide clues and relevant information to the loaner on an authentic, complete and accurate basis and offer the cooperation required by the loaner.

▲ ▲ Article 9. Adjustment of Line of Credit, Acceleration of Maturity and Repricing of Risk

9.1 Any event below should be deemed as the “early maturity event” of this contract:

- (1) The borrower does not repay the principal or interest of the loan according to the *Application for Use of Line of Credit* under this contract;
- (2) The borrower makes any false representation or guarantee under this contract;
- (3) Any event that should be notified as specified in Article 8.6 occurs and influences or may influence the security of the creditor’s right of the loaner;
- (4) Any law, rule or regulatory policy is changed to the extent that the loaner will or may violate the law or rule if it issues the loan according to this contract;
- (5) While performing the contract with the loaner or any third party, the borrower conducts any breach or the debt may be or has been announced to be mature in advance;
- (6) The borrower breaches any other article of this contract.

9.2 In case of any “early maturity event”, the loaner may take any one, several or all measures below:

- (1) To lower, suspend or cancel the line of credit under this contract;
- (2) To stop issuing the loan unused by the borrower;
- (3) To stop paying the loan unused but already withdrawn by the borrower;
- (4) To require the borrower to supplement the issuance and payment conditions of loan to the loaner with the regulated period;
- (5) To require the borrower to change the payment mode as required by the loaner;
- (6) To reprice against the risk in executing the loan according to Article 9.3;
- (7) To announce that the principal of loan already issued under this contract becomes mature and require the borrower to repay the principal and interest of all the mature loan immediately.

9.3 In view of the production and operation situation of the borrower when signing this contract, both parties have determined the interest rate and its adjustment through negotiations. The borrower agrees that in case of any “early maturity event”, the loaner may reprice against the risk in executing the loan according to this article.

9.3.1 The repricing mentioned above consists of two modes, including repricing and directly raising the loan interest rate. The specific mode is agreed by both parties in Article 21.

9.3.2 “Negotiated reprice” means that the loaner may require the borrower to negotiate with the loaner within the regulated period to raise the loan interest rate and both parties will determine the “repricing date” and relevant interest rate in the form of supplemental agreement.

9.3.3 “Direct raise of loan interest rate” means that the loaner may directly raise the loan interest rate according to this article and Article 21.

9.3.3.1 Since the loan sends a notice of “repricing date” to the borrower, the loan interest rate should be applied to each loan that the borrower has not repaid by the “repricing date”.

9.3.3.2 If the loan currency is RMB and the type of benchmark interest rate of each loan is kept unchanged, then the raised loan interest rate should be determined by the fluctuating extent/increase (decrease) value specified in Article 21 on the basis of the benchmark interest rate of “repricing date”.

If the “repricing date” is set as T Day, then the benchmark interest rate to calculate the raised loan interest rate should be determined by following rules

① If the benchmark interest rate of the People’s Bank applies, the benchmark interest rate should be the benchmark interest rate of the People’s Bank on T Day;

② If LPR quotation of Bank of Communications applies, the benchmark interest rate should be the LPR value published on the latest business day before T Day, and, if no LPR is published on the latest business day before T Day, the benchmark interest rate should be the LPR value published on the former business day before that day;

③ If LPR mean interest rate applies, the benchmark interest rate should be the LPR value published on the latest business day before T Day, and, if no LPR is published on the latest business day before T Day, the benchmark interest rate should be the LPR value published on the former business day before that day.

9.3.3.3 If the loan is in any foreign currency, the raised loan interest rate should be determined according to Article 21.

9.3.4 After the loaner reprices against the risk according to the article mentioned above, the new interest rate should be applied since the “repricing date”. Regulations on the fluctuation is still subject to that mentioned in Article 3 of this contract, and if both parties negotiate to change the relevant regulation, the changed regulation shall be applied. If the loan becomes overdue (including the circumstance that the borrower fails to make the repayment in time or the loan is announced by the loaner to be mature in advance) or embezzled, the overdue and embezzlement default interest rate should be determined on the basis of the new interest rate (including the interest rate adjusted according to regulations on fluctuation of this contract) while the compound interest rate should also be correspondingly adjusted.

9.3.5 Execution of the “repricing against risk” should not be deemed or construed as that the loaner waives any other right under any law, rule or this contract. The loaner may take other protective measures for the creditor’s right according to laws, rules and this contract, including but not limited to measures specified in Article 9.2 of this contract.

▲ ▲ Article 10. Breach

10.1 If the borrower does not repay the principle or interest of the loan in time or uses the loan for any purpose not included in this contract, the loaner will collect the interest at the default interest rate of overdue or embezzled loan, and collect the compound interest of the outstanding interest. If the default interest rate is adjusted according to this contract, the compound interest rate should also be adjusted correspondingly.

10.2 If the borrower does not repay the principle or interest of the loan in time, it should assume the calling expense, lawsuit expense (or arbitration expense), preservation expense, announcement expense, execution expense, attorney's fee, travel expense and other expenses of the loaner in realizing the creditor's right.

▲ ▲ Article 11. Deduction

11.1 The borrower authorizes that in case of any payable principal, interest, default interest, compound interest or any other expense of the loan, the loaner may deduct the fund in any account of the borrower opened at any branch of Bank of Communications Co., Ltd. to repay the amount mentioned above.

11.2 After such deduction, the loaner should inform the borrower of relevant account number, contract number, number of *Application for Use of Line of Credit*, deduction amount and remaining debt.

11.3 If the deducted fund is insufficient to repay all the debt of the borrower, the debt to be repaid by such fund should be determined according to this contract.

11.4 If the currency of the deducted fund is different from that of the debt to be repaid, the deducted fund should be converted at the exchange rate published by Bank of Communications Co., Ltd. at the time of deduction. If any settlement, sales or exchange procedure of foreign currency is necessary, the borrower is obliged to assist the loaner and assume the risk in exchange rate.

Article 12. Notice

12.1 Contact details provided by the borrower in this contract (including mailing address, telephone number and fax number) are all authentic and valid. In case of any change of any contact detail, the borrower should send/deliver such change to the mailing address offered by the loaner in this contract immediately. Such change should take effect when the loaner receives the notice of change.

12.2 Unless otherwise specified in this contract, the loaner may send a notice to the borrower in any manner below. The loaner may choose the manner it thinks fit but is relieved from any liability for the error, omission or delay caused by the postal service, fax, telephone or any other communication system. If the loaner chooses several manners, the one delivering the notice to the borrower, the fastest should prevail.

(1) If the loaner chooses the announcement, the date at which the loaner publishes the announcement on its website, online bank, telephone bank or outlet should be deemed as the delivery date;

(2) If the loaner chooses the personal delivery, the date at which the borrower signs to confirm the reception should be deemed as the delivery date;

(3) If the loaner chooses the postal service (including express delivery, ordinary mail and registered mail) to send the notice to the latest mailing address of the borrower that the loaner knows, the third day (in the same city)/the fifth day (in different cities) since the sending date should be deemed as the delivery date;

(4) If the loaner chooses the fax, SMS or other electronic communication means to deliver the notice to the latest fax number of the borrower that the loaner knows, the mobile telephone number or e-mail appointed by the borrower, the sending date should be deemed as the delivery date.

12.3 The borrower agrees that unless the loaner receives the written notice about changing the mailing address from the borrower, the mailing address provided by the borrower in this contract is the address for the court to send the judicial instrument and other written documents. During the process of dispute solution, if the court sends the judicial instrument or other written documents to the latest mailing address of the borrower that the loaner knows through the postal service (including express delivery, ordinary mail and registered mail), the date at which the borrower signs on the receipt should be regarded as the delivery date; if the borrower does not sign on the receipt, the third day (in the same city)/the fifth day (in different cities) since the sending date should be deemed as the delivery date;

Except for the written judgment, written verdict or mediation agreement, the court may send any notice to the borrower by any communication means specified in Article 12.2. The court may choose the communication means it thinks fit but is relieved from any liability for the error, omission or delay caused by the postal service, fax, telephone or any other communication system. If the court chooses several manners, the one delivering the notice to the borrower, the fastest should prevail.

▲▲ Article 13. Disclosure and Confidentiality

13.1 With respect to the information and materials of the borrower obtained in the signing and performance of this contract, the loaner may not violate any law, rule or regulatory requirement to use such information and materials. It should assume the confidentiality liability but not disclose such information and materials to any third party, except for under following circumstances:

(1) The law or rule requires such disclosure;

(2) The judicial department or regulatory authority requires such disclosure;

(3) When the borrower does not repay the principal and/or interest of the loan in time, the loaner has to make the disclosure to the external professional advisor for the purpose of realizing the creditor's right under this contract but such external professional advisor must assume the confidentiality obligation;

(4) The borrower agrees or authorizes the loaner to make the disclosure.

13.2 The borrower confirms that it has signed the *Credit Information Inquiry and Provision Authorization*. The loaner may inquire, use and keep the credit information of the borrower within the scope regulated by the authorization.

13.3 Besides the circumstance specified in Article 13.1 and Article 13.2, the borrower further agrees Bank of Communications Co., Ltd. to use or disclose the information and materials of the borrower under following circumstances, including but not limited to the basic information, credit transaction information, adverse information and other relevant information and materials of the borrower, and is willing to assume all the consequences thereof:

Bank of Communications Co., Ltd. may disclose such information and materials on a confidentiality basis to the business outsourcing institution, third party service provider, other financial institutions and other institutions or individuals that the loaner deems necessary, including but not limited to other branches or wholly-owned subsidiaries of Bank of Communications Co., Ltd. for the purpose below: ① It conducts the line of credit business or any relevant business, such as promoting the line of credit business of Bank of Communications Co., Ltd., calling for the debt from the borrower and transferring the creditor's right of the line of credit business; ② The loaner provides or may provide the borrower with the new product or service, or further provides the service.

Whether Article 13.3 is applicable should be subject to Article 24 of this contract.

Article 14. Applicable Laws and Dispute Solution

Laws of the People's Republic of China (for the purpose of this contract, excluding laws of Hong Kong, Macau and Taiwan) apply to this contract. Any dispute under this contact should be brought to the competent court at the place of the loaner, unless otherwise regulated in this contract. Both parties should continue to perform those articles not involved in the dispute during the period of dispute solution.

Article 15. Effectiveness and Constitution of Contract

15.1 This contract takes effect with the signature of the legal representative (responsible person) or the authorized representative (or seal) and the common seal of the borrower, as well as the signature of the responsible person or the authorized representative (or seal) and the common seal of the loaner.

15.2 The *Application for Use of Line of Credit* and other relevant documents and materials signed under this contract are indispensable parts of this contract.

15.3 *Application for Use of Line of Credit* is the supplement to this contract. Unless otherwise regulated in the *Application for Use of Line of Credit*, rights, obligations and other matters of the borrower and the loaner should still be subject to this contract.

Article 16. Specific Content of Line of Credit

16.1 Currency of line of credit: RMB; Amount in words: five million yuan; Available for RMB foreign currency; Belonging to Revolving line of credit One-time line of credit (used for several time) One-time line of credit (used for only once).

16.2 Purpose of line of credit: operation turnover.

16.3 Period of line of credit is October 24, 2018 to October 24, 2019.

Article 17. Interest Rate

If the loan is in any foreign currency, the determination and adjustment of interest rate, and the default interest rate of overdue and embezzled loan are regulated as follows:

_____ / _____

Article 18. Account

18.1 The borrower appoints the following account to be the issuance account. The account is is not the dedicated loan issuance account opened at the loaner. If both parties otherwise regulate in the *Application for Use of Line of Credit*, such *Application for Use of Line of Credit* should prevail.

Account name: CLPS

Account number: 310066865018010213932

Bank of deposit: Zhangjiang Sub-branch of Bank of Communications

18.2 The borrower appoints that:

(1) The repayment account:

Account name: CLPS

Account number: 310066865018010213932

Bank of deposit: Zhangjiang Sub-branch of Bank of Communications

(2) The fund collection account:

Account name: CLPS

Account number: 310066865018010213932

Bank of deposit: Zhangjiang Sub-branch of Bank of Communications

Article 19. Issuance, Payment and Repayment of Loan

19.1 The period of each loan withdrawn under this contract should be no longer than 12 months days, and the maturity date of all the loan should be no later than April 24, 2020.

19.2 The limit of independent payment under this contract should be RMB0.

19.3 The entrusted payment by loaner is compulsory once any condition below is met:

_____/_____

19.4 In the mode of independent payment by the borrower, the borrower should report the payment of loan fund to the loaner within 15 days since the issuance of loan.

Article 20. Financial Restriction, External Rating, Production and Operation Qualification/License

20.1 Limit on the external investment by the borrower is RMB10,000,000,000; limit on the increase of debt financing is RMB10,000,000,000.

20.2 Specific regulations on the financial indexes of the borrower:

(1) _____ / _____

(2) _____

(3) _____

20.3 Specific regulations on the external rating:

(1) _____ / _____

(2) _____

20.4 Specific regulations on the production and operation qualification/license of the borrower:

(1) _____ / _____

(2) _____

▲▲ Article 21. Repricing of Risk

21.1 This contract adopts the first repricing mode below: (1) Repricing through negotiations; (2) Direct raising the loan interest rate.

21.2 Once the “direct raising the loan interest rate” is adopted:

21.2.1 If the loan currency is RMB, the fluctuation extent/increase (decrease) value of the raised loan: Benchmark interest rate (without fluctuation/increase or decrease) Fluctuated upwards by % Fluctuated downwards by / % Increased by / % Decreased by / %. If any specific regulation is reached in a certain loan, the fluctuation extent/increase (decrease) value of the raised interest rate should be subject to the applicable *Application for Use of Line of Credit*.

21.2.2 If the loan currency is a foreign currency, interest rate of the raised loan is:

 /

Article 22. Contact Details

Contact details of the borrower to receive the notice specified in Article 12:

Mailing address: 2F, Building 18, 498 Guoshoujing Road

Addressee: Li Jin

Post code: _____

Tel: _____

Mobile: 15821203042

Fax: _____

E-mail: _____

Article 23. Counterparts

This contract is made with three copies. Both parties and the guarantor (if any) holds one copy (ies) respectively.

Article 24. Miscellaneous

24.1 Both parties agree that Article 13.3 applies does not apply to this contract.

24.2 The loaner will issue the legal VAT invoice according to laws, rules and regulations, while the specific time and mode should be determined by both parties through negotiations.

24.3 The payment mode of loan under this contract should be subject to the *Application for Use of Line of Credits* signed by the loaner.

Borrower: CLPS

Legal representative (responsible person): Yang Xiaofeng

Address: Room 26C01, 828-838 Zhangyang Road, China (Shanghai) Free Trade Area

Loaner: Xinqu Branch (Sub-branch) of Bank of Communications Co., Ltd.

Responsible person: Cai Yue

Mailing address: 560 Songtao Road

The borrower has read this contract and the loaner has made detailed descriptions as required by the borrower. The borrower possesses no objection or doubt when signing this contract and understands all the articles, especially the meaning and legal consequence of those marked with ▲▲.

(No text below in this page)



Borrower: (Seal)

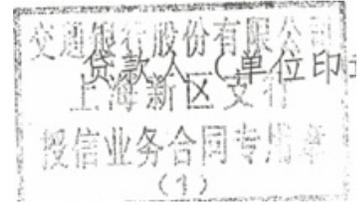
(Seal: CLPS)

Legal representative (responsible person) or authorized representative



(Signature or seal)

Date: December 5, 2018



Loaner: (Seal)

(Seal: Line of Credit Business Contract Seal of Shanghai Xinqu Sub-branch of Bank of Communications Co., Ltd.)

Legal representative (responsible person) or authorized representative



(Signature or seal)

Date: December 5, 2018

Application for Use of Line of Credit of Bank of Communications																
Application date: November 6, 2017																
Application No.: Z1711LN1567513400001					Barcode											
Xinqu Branch (Sub-branch) of Bank of Communications Co., Ltd. (hereinafter referred to as "loaner")																
In accordance with the <i>Current Fund Loan Contract</i> in the number of Z1J11LN15675134 between the borrower and the loaner (hereinafter referred to as <i>Loan Contract</i>) and the / between the loaner and the guarantor in the number of /, the borrower hereby applies for using the line of credit under the <i>Contract</i> . Specific situation of this loan is as follows:																
1. Customer and account information	Customer number*	0115680058795108														
	Loan account number	31089999900003435325														
	Customer*	Chinese name	CLPS													
		English name														
Issuance account*	310066865018010213932	Issurance account name			CLPS											
2. Loan information	Loan currency*	RMB	100B	10B	B	100M	10M	M	100,000	10,000	1,000	100	10	1	0.1	0.01
	Principal amount (in words)*	Four million nine hundred thousand yuan														
	Period of loan*	November 8, 2017 to February 8, 2018 (maturity date)							Value date		■0- bookkeeping date of loan					
	Payment mode of loan*	■1- Entrusted payment														
	Cause and purpose of loan	Operation turnover														
3. Loan interest rate	■00- fixed interest rate	Fixed interest rate (%) (Note: It is used to determine the applicable interest rate during the period of loan and the loan interest rate would not be adjusted during the period)														
		Type of benchmark interest rate	■05-LPR (quotation of People's Bank) (6 months - 1 year (included))													
		Applicable date of benchmark interest rate	■0- bookkeeping date of loan													
		Fluctuation extent/increase (decrease) value	■03- plus (1.355000)%													
		Fluctuation rules of interest rate	■04- no fluctuation	Fluctuation cycle of interest rate					Unit price of fluctuation cycle of interest rate					Beginning date of fluctuation at specific date ()		
Note: In case of adjustment of benchmark interest rate during the period of loan, the adjustment date of loan interest rate should be determined by the "fluctuation rules of interest rate". If "no fluctuation" is selected, the loan interest rate during the period of loan will not be adjusted; if "fluctuating at bookkeeping date of loan" or "fluctuating at specific beginning date" is selected, the cycle of adjustment of loan interest rate should be calculated since such "bookkeeping date of loan" or "specific beginning date". The column of interest rate fluctuation cycle unit may be filled with day or month and the column of interest rate fluctuation cycle should be filled with the quantity of interest rate fluctuation cycles. If the quantity of interest rate fluctuation cycle is "1" while the interest rate fluctuation unit is "day", then the adjustment date of benchmark interest rate should be the adjustment date of loan interest rate; if the quantity of interest rate fluctuation cycle is "3" while the interest rate fluctuation unit is "month", then the adjustment date of loan interest rate should be the end of every third month since the "bookkeeping date" or "specific date", the same below (such rules also apply to the "overdue default interest rate" and "compound interest rate").																
4. Repayment and interest settlement information	Repayment mode*	■L03- interest by installments and principal by lump sum														
	Interest cycle	■3- Quarter														
	Repayment account number 1 (dedicated account)	310066865018010213932			Repayment account number 2			Repayment account number 3								
	Repayment account 1 name (dedicated account)	CLPS			Repayment account name 2			Repayment account name 3								
For customer																



Repayment account number 4		Repayment account number 4	
Repayment account name 4		Repayment account name 5	

The borrower hereby signs and seals to confirm that it has read and understood all the content in the front and back of this application, and possesses no objection or doubt about any content of this application.

(Financial Seal of CLPS)



(Common seal and seal of reserved settlement account of the borrower)
 Legal representative (responsible person) or authorized representative (signature or seal)
 Date: November 6, 2017

Loaner (common seal)
 (Seal: Line of Credit Business Contract Seal of Shanghai Xinqu Sub-branch of Bank of Communications Co., Ltd.)

Responsible person or authorized representative (signature or seal)

Printed by bank

Honorable borrower, CLPS:

The loan you apply for withdrawing according to the *Contract* in the number of Z1711LN15675134 (amount: 4,900,000.00; currency: RMB) was deposited into your issuance account (310066865018010213932) on November 8, 2017. The value date is 2017-11-08 and the actual interest rate of the loan at the issuance date is 5.655%. Please have it checked.

This receipt of customer slip of the application is valid with signature and seal of the bank after the issuance.



Business seal of bank:
 (Accounting Business Seal of Shanghai Branch of Bank of Communications)

Certification
Pursuant to Rule 13a-14(a) of the Exchange Act

I, Raymond Ming Hui Lin, certify that:

1. I have reviewed this annual report on Form 20-F of CLPS Incorporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: October 21, 2019

By: /s/ Raymond Ming Hui Lin

Name: Raymond Ming Hui Lin

Title: Chief Executive Officer
(Principal Executive Officer)

Certification
Pursuant to Rule 13a-14(a) of the Exchange Act

I, Tian van Acken, certify that:

1. I have reviewed this annual report on Form 20-F of CLPS Incorporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: October 21, 2019

By: /s/ Tian van Acken
Name: Tian van Acken
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

Certification
Pursuant to 18 U.S.C. Section 1350

Pursuant to U.S.C. Section 1350 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of CLPS Incorporation (the "Company"), does hereby certify, to such officer's knowledge, that the Annual Report on Form 20-F for the year ended June 30, 2019 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

CLPS Incorporation

October 21, 2019

By: /s/ Raymond Ming Hui Lin
Name: Raymond Ming Hui Lin
Title: Chief Executive Officer
(Principal Executive Officer)

October 21, 2019

By: /s/ Tian van Acken
Name: Tian van Acken
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Post-Effective Amendment No. 1 to Registration Statement (Form S-8 No. 333-226110) and Registration Statement (Form S-8 No. 333-226110) pertaining to the 2017 Equity Incentive Plan, Registration Statement (Form S-8 No. 333-231103) pertaining to the 2019 Equity Incentive Plan, the Amendment No. 1 to Registration Statement (Form F-3 No. 333-231812) and Registration Statement (Form F-3 No. 333-231812) of CLPS Incorporation of our report dated October 21, 2019, with respect to the consolidated financial statements of CLPS Incorporation, included in this Annual Report (on Form 20-F) for the year ended June 30, 2019.

/s/ Ernst & Young Hua Ming LLP
Shanghai, The People's Republic of China
October 21, 2019

FRIEDMAN LLP®

ACCOUNTANTS AND ADVISORS

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement to the Amendment No. 1 to Form F-3 (No. 333-231812), Form F-3 (No. 333-231812), Post-Effective Amendment No. 1 to Form S-8 (No. 333-226110) and Registration Statement (Form S-8 No. 333-226110) pertaining to the 2017 Equity Incentive Plan, Form S-8 (No. 333-231103) of CLPS Incorporation and subsidiaries (the "Company") as of our report dated September 25, 2018 with respect to the consolidated financial statements of CLPS Incorporation and subsidiaries included in its Annual Report on Form 20-F for the fiscal year ended June 30, 2018, filed with the Securities and Exchange Commission on September 25, 2018. We also consent to the reference to our firm under the wording "Experts" in such Registration Statement.

/s/ Friedman LLP

New York, New York
October 21, 2019

One Liberty Plaza, 165 Broadway, 21st Floor, New York, NY 10006 p 212.842.7000

friedmanllp.com

Your livelihood, empowered.

An Independent Member Firm of DFK with offices worldwide. 

