

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, 2020

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 Unit 702, 7<sup>th</sup> Floor, Millennium City II  
378 Kwun Tong Road, Kwun Tong, Kowloon  
Hong Kong SAR  
Tel: (852) 37073600**

(Address of principal executive office)

**Raymond Ming Hui Lin, Chief Executive Officer**

**c/o Unit 702, 7<sup>th</sup> Floor, Millennium City II  
378 Kwun Tong Road, Kwun Tong, Kowloon  
Hong Kong SAR  
Tel: (852) 37073600**

(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
<b>Common Shares, par value \$0.0001</b>	<b>CLPS</b>	<b>The NASDAQ Stock Market LLC</b>

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 15, 2020, the issuer had 16,093,248 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

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## 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 (WOFE)” 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-Ridik AU” refers to CLPS-Ridik 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 Delaware company.
- “CLPS California” refers to CLPS Technology (California) Inc., a California 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.
- “CLPS Hangzhou” refers to CLPS Hangzhou Co. Ltd., a PRC company.
- “CLPS Guangdong Zhichuang” refers to CLPS Guangdong Zhichuang Software Technology Co., Ltd. a PRC company.
- “CLPS Shenzhen Robotics” refers to CLPS Shenzhen Robotics Co. Ltd., a PRC company.
- “Ridik Pte.” refers to Ridik Pte. Ltd., a Singaporean company.
- “Ridik Consulting” refers to Ridik Consulting Private Limited, an Indian company.
- “Ridik Sdn.” refers to Ridik Sdn. Bhd., a Malaysian company.
- “Ridik Software Pte.” refers to Ridik Software Solutions Pte. Ltd., a Singaporean company.
- “Ridik Software” refers to Ridik Software Solutions Ltd., a UK company.
- “Suzhou Ridik” refers to Suzhou Ridik Information Technology Co., Ltd., a PRC company.
- “CLPS Japan” refers to CLPS Technology Japan, a Japanese company.
- “Qinson” refers to Qinson Credit Card Services Limited, a Hong Kong 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 7.0651 to USD1.00, the noon buying rate on June 30, 2020, 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 for 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, 2020, 2019 and 2018 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, 2020, 2019 and 2018, respectively.**

**Selected Consolidated Statement of Comprehensive (Loss) Income**

	<b>For the years ended June 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Revenues	\$ 89,415,798	\$ 64,932,937	\$ 48,938,593
Less: Cost of revenues	(58,296,097)	(41,178,356)	(31,277,255)
Gross profit	<u>31,119,701</u>	<u>23,754,581</u>	<u>17,661,338</u>
Operating expenses:			
Selling and marketing expenses	3,059,877	2,179,029	2,225,702
Research and development expenses	10,436,975	7,978,883	7,837,873
General and administrative expenses	16,343,936	17,384,393	5,871,622
Total operating expenses	<u>29,840,788</u>	<u>27,542,305</u>	<u>15,935,197</u>
Income (loss) from operation	1,278,913	(3,787,724)	1,726,141
Subsidies and other income, net	2,535,868	779,508	960,784
Other expenses	<u>(107,322)</u>	<u>(92,429)</u>	<u>(84,155)</u>
Income (loss) before income tax and share of loss in equity investees	3,707,459	(3,100,645)	2,602,770
Provision (benefits) for income taxes	835,444	186,615	(112,128)
Income (loss) before share of income (loss) in equity investees	<u>2,872,015</u>	<u>(3,287,260)</u>	<u>2,714,898</u>
Share of income (loss) in equity investees, net of tax	<u>207,363</u>	<u>(145,329)</u>	<u>-</u>
Net income (loss)	3,079,378	(3,432,589)	2,714,898
Less: Net income (loss) attributable to non-controlling interests	141,139	(162,813)	280,435
<b>Net income (loss) attributable to CLPS Incorporation’s shareholders</b>	<b><u>\$ 2,938,239</u></b>	<b><u>\$ (3,269,776)</u></b>	<b><u>\$ 2,434,463</u></b>
Other comprehensive income (loss)			
Foreign currency translation (loss) gain	\$ (571,943)	\$ (429,348)	\$ 55,793
Less: foreign currency translation (loss) gain attributable to non-controlling interest	(22,928)	(17,375)	10,200
Other comprehensive (loss) gain attributable to CLPS Incorporation’s shareholders	<u>\$ (549,015)</u>	<u>\$ (411,973)</u>	<u>\$ 45,593</u>
Comprehensive income (loss) attributable to			
CLPS Incorporation shareholders	\$ 2,389,224	\$ (3,681,749)	\$ 2,480,056
Non-controlling interests	118,211	(180,188)	290,635
	<u>\$ 2,507,435</u>	<u>\$ (3,861,937)</u>	<u>\$ 2,770,691</u>
Basic earnings (loss) per common share*	0.20	(0.24)	0.21
Weighted average number of share outstanding – basic	14,689,224	13,843,764	11,517,123
Diluted earnings (loss) per common share*	0.20	(0.24)	0.21
Weighted average number of share outstanding – diluted	14,692,299	13,843,764	11,636,367
<b>Supplemental information:</b>			
Non-GAAP income before income tax	7,711,539	3,915,444	2,602,770
Non-GAAP net income	7,083,458	3,583,500	2,714,898
Non-GAAP net income attributable to CLPS Incorporation’s shareholders	6,942,319	3,746,313	2,434,463
Non-GAAP basic earnings per common share	0.47	0.27	0.21
Weighted average number of share outstanding – basic	14,689,224	13,843,764	11,517,123
Non-GAAP diluted earnings per common share	0.47	0.27	0.21
Weighted average number of share outstanding – diluted	14,692,299	13,969,436	11,636,367

\* 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, 2020 and 2019, respectively.

	As of June 30,	
	2020	2019
Cash and cash equivalents	\$ 12,652,120	\$ 6,601,335
Short-term investments	\$ 636,934	\$ 1,791,697
Accounts receivable, net	\$ 25,753,856	\$ 19,263,584
Escrow receivable	\$ -	\$ 200,000
Prepayments, deposits and other assets, net	\$ 1,280,967	\$ 1,028,154
Prepaid income tax	\$ 15,780	\$ 630,790
Amounts due from related parties	\$ 169,185	\$ 230,540
<b>Total Current Assets</b>	<b>\$ 40,508,842</b>	<b>\$ 29,746,100</b>
Property and equipment, net	\$ 452,472	\$ 566,591
Intangible assets, net	\$ 1,144,579	\$ 427,769
Goodwill	\$ 2,118,700	\$ 447,790
Long-term investments	\$ 680,131	\$ 914,006
Prepayments, deposits and other assets, net	\$ 244,387	\$ 222,507
Deferred tax assets, net	\$ 203,247	\$ 338,221
<b>Total Assets</b>	<b>\$ 45,352,358</b>	<b>\$ 32,662,984</b>
Short-term bank loans	\$ 2,161,239	\$ 2,184,996
Accounts payable and other current liabilities	\$ 489,043	\$ 196,832
Tax payables	\$ 1,426,614	\$ 915,629
Deferred subsidies	\$ -	\$ 109,250
Deferred revenues	\$ -	\$ 124,192
Contract liabilities	\$ 755,178	-
Salaries and benefits payable	\$ 11,522,268	\$ 7,735,487
Long-term bank loans	\$ 22,554	-
Deferred tax liabilities	\$ 163,163	-
Unrecognized tax benefits	\$ 194,939	-
<b>Total Liabilities</b>	<b>\$ 16,734,998</b>	<b>\$ 11,266,386</b>
<b>Total CLPS Incorporation's Shareholders' Equity</b>	<b>\$ 27,348,644</b>	<b>\$ 20,788,436</b>
Non-controlling Interests	\$ 1,268,716	\$ 608,162
<b>Total Shareholders' Equity</b>	<b>\$ 28,617,360</b>	<b>\$ 21,396,598</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 45,352,358</b>	<b>\$ 32,662,984</b>

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. On September 30, 2020, the buying rate announced by the Federal Reserve Statistical Release was RMB 6.7896 to \$1.00.

Period	Spot Exchange Rate			
	Period Ended	Average (1)	Low	High
	(RMB per US\$1.00)			
2018	6.8755	6.6090	6.2649	6.9737
2019	6.9618	6.9081	6.6822	7.1786
2020				
January	6.9161	6.9184	6.8589	6.9749
February	6.9906	6.9967	6.9650	7.0286
March	7.0808	7.0205	6.9244	7.1099
April	7.0622	7.0708	7.0341	7.0989
May	7.1348	7.1016	7.0622	7.1681
June	7.0651	7.0816	7.0575	7.0575
July	6.9744	7.0041	6.9744	7.0703
August	6.8474	6.9301	6.8474	6.9799
September	6.7896	6.8106	6.7529	6.8474

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 \$48.9 million in fiscal 2018 to \$64.9 million in fiscal 2019 and to \$89.4 million in fiscal 2020. We maintain 18 delivery and/or R&D centers, of which ten are located in Mainland China (Shanghai, Beijing, Dalian, Tianjin, Baoding Chengdu, Guangzhou, Shenzhen, Hangzhou, and Suzhou) and eight are located globally (Hong Kong SAR, USA, UK, Japan, Singapore, Malaysia, Australia, and India, to serve different customers in various geographic locations. The number of our total employees grew from 1,655 in fiscal 2018 to 2,085 in fiscal 2019. As of June 30, 2020 we had 2,746 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 delay 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 reduction 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 in 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 16% per annum in 2018 and 2019, respectively; in 2020, this rate was 16.6%. 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 Talent Creation Program ("TCP") and Talent Development Program ("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 of the Board. 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 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, 2020, 2019 and 2018, Citibank and its affiliates accounted for 21.5%, 25.7% and 30.8% 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 change 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, 2020 and 2019, our accounts receivable balance, net of allowance, amounted to approximately \$25.8 million and \$19.3 million, respectively. As of the years ended June 30, 2020 and 2019, Citibank accounted for 30.1% and 30.0% 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 changes, 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, 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 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 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 other 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, and 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.

***Our results of operations may be negatively impacted by the COVID-19 outbreak.***

In December 2019, the 2019 novel coronavirus (COVID-19) surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020 with respect to the outbreak then characterized it as a pandemic on March 11, 2020. The outbreak has spread throughout Europe and the Middle East, and there have been many cases of COVID-19 in Canada and the United States, causing companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time. Similarly, we cannot estimate whether or to what extent this outbreak and potential financial impact may extend to countries outside of those currently impacted. At this point, the extent to which the coronavirus may impact our results is uncertain; however, it is possible that our consolidated results in 2020 may be negatively impacted by this event. The impacts of the outbreak are unknown and rapidly evolving.

***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 Indian rupee in certain of our operating subsidiaries. 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 have implemented a number of measures to improve our internal control over financial reporting to address the material weakness that have been identified. For details about remediation, refer to “Item 15. Controls and Procedures.” As of June 30, 2020, based on an assessment performed by our management on the performance of the remediation measures, we determined that the material weakness previously identified in our internal control over financial reporting had been remediated.

Our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting. It is possible that, had our independent registered public accounting firm conducted an audit of our internal control over financial reporting, such firm might have identified additional material weaknesses and deficiencies.

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 effective as of June 30, 2020. 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 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), Foreign Investment Law of the People's Republic of China (2020) and Implementing Regulations of the Foreign Investment Law of the People's Republic of China (2020) 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, which was amended on June 22, 2009 (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 Catalogue of Industries for Encouraging Foreign Investment (2019) 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. 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 to 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.

As part of a continued regulatory focus in the United States on access to audit and other information currently restricted by China's own law, in June 2019 a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress, which if passed, would require the SEC to maintain a list of issuers for which PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The proposed Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act prescribes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. national securities exchanges such as the NYSE of issuers included on the SEC's list for three consecutive years. Enactment of this legislation or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of our shares could be adversely affected. It is unclear if this proposed legislation would be enacted. Furthermore, there has been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets. If any such deliberations should materialize, the resulting legislation may have material and adverse impact on the stock performance of China-based issuers listed in the United States including us.

On April 21, 2020, the SEC and the PCAOB issued another joint statement reiterating the greater risk that disclosures will be insufficient in many emerging markets, including China, compared to those made by U.S. domestic companies. In discussing the specific issues related to the greater risk, the statement again highlights the PCAOB's inability to inspect audit work and practices of accounting firms in China with respect to their audit work of U.S. reporting companies. Inspections of other accounting firms that the PCAOB has conducted 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. The lack of PCAOB inspections of audit work undertaken in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors of our ordinary shares do not derive the benefits of PCAOB inspections, and 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.***

Ernst & Young Hua Ming LLP, our auditor, is required under U.S. law to undergo regular inspections by the PCAOB. However, without approval from the Chinese government authorities, the PCAOB is currently unable to conduct inspections of the audit work and practices of PCAOB-registered audit firms within the PRC on a basis comparable to other non-U.S. jurisdictions. Since we have substantial operations in the PRC, our auditor and its audit work are currently not fully inspected by the PCAOB.

Inspections of other auditors conducted by the PCAOB outside of China have at times identified deficiencies in those auditors' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct full 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.

The SEC previously instituted proceedings against mainland Chinese affiliates of the "big four" accounting firms, including the affiliate of our auditor, for failing to produce audit work papers under Section 106 of the Sarbanes-Oxley Act because of restrictions under PRC law. Each of the "big four" accounting firms in mainland China agreed to a censure and to pay a fine to the SEC to settle the dispute and stay the proceedings for four years, until the proceedings were deemed dismissed with prejudice on February 6, 2019. It remains unclear whether the SEC will commence a new administrative proceeding against the four mainland China-based accounting firms. Any such new proceedings or similar action against our audit firm for failure to provide access to audit work papers could result in the imposition of penalties, such as suspension of our auditor's ability to practice before the SEC. If our independent registered public accounting firm, or its affiliate, was denied, even temporarily, the ability to practice before the SEC, and it was determined that our financial statements or audit reports were not in compliance with the requirements of the U.S. Exchange Act, we could be at risk of delisting or become subject to other penalties that would adversely affect our ability to remain listed on the Nasdaq.

In recent years, U.S. regulators have continued to express their concerns about challenges in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. More recently, as part of increased regulatory focus in the U.S. on access to audit information, on May 20, 2020, the U.S. Senate passed the Holding Foreign Companies Accountable Act, or the HFCA Act, which includes requirements for the SEC to identify issuers whose audit reports are prepared by auditors that the PCAOB is unable to inspect or investigate completely because of a restriction imposed by a non-U.S. authority in the auditor's local jurisdiction. If the HFCA Act or any similar legislation were enacted into law, our securities may be prohibited from trading on the Nasdaq or other U.S. stock exchanges if our auditor is not inspected by the PCAOB for three consecutive years, and this ultimately could result in our ordinary shares being delisted. Delisting of our ordinary shares would force our U.S.-based shareholders to sell their shares. The market prices of our ordinary shares could be adversely affected as a result of anticipated negative impacts of the HFCA Act upon, as well as negative investor sentiment towards, China-based companies listed in the United States, regardless of whether the HFCA Act is enacted and regardless of our actual operating performance.

Furthermore, on June 4, 2020, the U.S. President issued a memorandum ordering the President's Working Group on Financial Markets ("PWG") to submit a report to the President within 60 days of the memorandum that includes recommendations for actions that can be taken by the executive branch, the SEC, the PCAOB or other federal agencies and departments with respect to Chinese companies listed on U.S. stock exchanges and their audit firms, in an effort to protect investors in the United States. On August 6, 2020, PWG released its Report on Protecting United States Investors from Significant Risks from Chinese Companies ("PWG Report"). The PWG Report includes five recommendations for the Securities and Exchange Commission. In particular, to address companies from jurisdictions, such as China, that do not provide the PCAOB with sufficient access to fulfill its statutory mandate, the PWG recommends enhanced listing standards on U.S. exchanges. This would require, as a condition to initial and continued exchange listing, PCAOB access to work papers of the principal audit firm for the audit of the listed company. Companies unable to satisfy this standard as a result of governmental restrictions on access to audit work papers and practices in these countries may satisfy this requirement by providing a co-audit from an audit firm with comparable resources and experience where the PCAOB determines it has sufficient access to audit work papers and practices to conduct an appropriate inspection of the co-audit firm. The PWG Report permits the new listing standards to provide for a transition period until January 1, 2022 for listed companies. The recommendations are to include actions that could be taken under current laws and rules as well as possible new rulemaking recommendations. Any resulting actions, proceedings or new rules could adversely affect the listing and compliance status of China-based issuers listed in the United States, such as our company, and may have a material and adverse impact on the trading prices of the securities of such issuers, including our ordinary shares, and substantially reduce or effectively terminate the trading of our ordinary 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. 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, Southeast Asia, 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 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 are fully committed to providing digital transformation services with focused on financial and technology in the banking, wealth management, e-commerce, and automotive industries, among others, through the utilization of innovative technology to achieve our client’s goals. We maintain 18 delivery and/or R&D centers, of which ten are located in Mainland China (Shanghai, Beijing, Dalian, Tianjin, Baoding Chengdu, Guangzhou, Shenzhen, Hangzhou, and Suzhou) and eight are located globally (Hong Kong SAR, USA, UK, Japan, Singapore, Malaysia, Australia, and India. 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 Qinqing 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 Qinrui (incorporated on June 9, 2017) and Qiner (incorporated on April 21, 2017). Qinrui owns all of the outstanding capital stock of CLPS QC (WFOE) (incorporated on August 4, 2017). CLPS QC (WFOE) 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:

<b>INVESTORS</b>	<b>PLACE OF REGISTRATION</b>	<b>SHARES</b>
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), Limpiada Zosimo (Philippines) and Lin James De-Mou (Taiwan). Including, Raymond Ming Hui Lin sold 15,000,000 shares, Limpiada 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.

On September 15, 2020, Shanghai Qincheng Information Technology Co., Ltd. and Qiner Co., Limited subscribed new shares issued by CLPS Shanghai. After the above-mentioned subscription, the shareholding structure of CLPS Shanghai was as follows

INVESTORS	PLACE OF REGISTRATION	SHARES
Shanghai Qincheng Information Technology Co., Ltd.	PRC	27,651,699
Qiner Co., Limited	Hong Kong	22,348,301
<b>Total:</b>		<b>50,000,000</b>

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 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 7% of equity interest in CLPS Lihong, a PRC limited liability company.
- **CLPS Guangdong Zhichuang** — CLPS Shanghai holds 10% of equity interest in CLPS Guangdong Zhichuang, a PRC limited liability company.
- **CLPS Shenzhen Robotics** — CLPS Shanghai holds 10% of equity interest in CLPS Shenzhen Robotics, 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.



## 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, Southeast Asia 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 are fully committed of providing digital transformation services with focused on financial and technology in the banking, wealth management, e-commerce, and automotive industries, among others, through the utilization of innovative technology to achieve our client's goals. We maintain 18 delivery and/or R&D centers, of which ten are located in Mainland China (Shanghai, Beijing, Dalian, Tianjin, Baoding Chengdu, Guangzhou, Shenzhen, Hangzhou, and Suzhou) and eight are located globally (Hong Kong SAR, USA, UK, Japan, Singapore, Malaysia, Australia, and India). 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

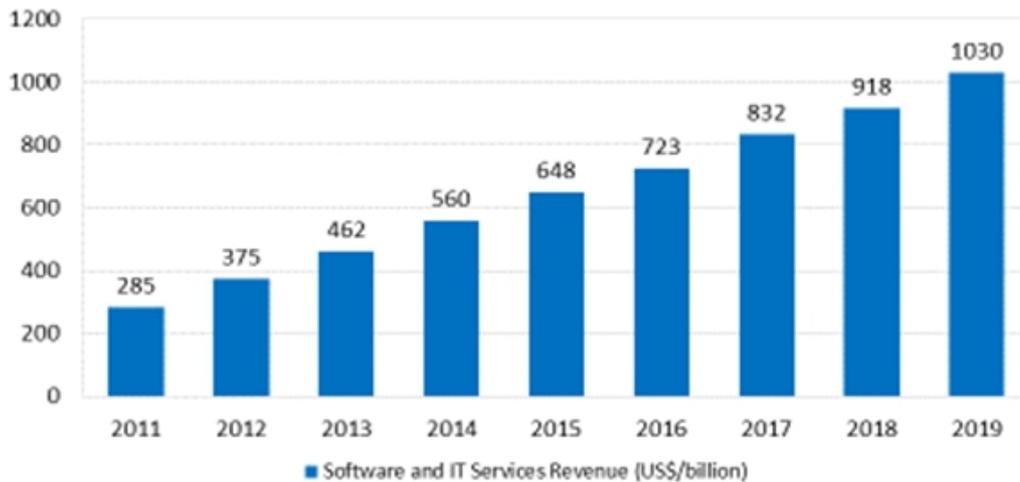
#### *China's Banking Industry*

According to the 2019 annual report of China Banking and Insurance Regulatory Commission (CBIRC), China's banking financial institutions had total assets of RMB 282.5 trillion (USD 40.6 trillion) at the end of 2019, a year-on-year increase of RMB 14.3 trillion (USD 2.1 trillion), or 8.1%. Total liabilities equalled to RMB 258.2 trillion (USD 37.1 trillion), a year-on-year increase of RMB 11.6 trillion (USD 1.7 trillion), or 7.6%. 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 CBIRC continued the policies to open China's banking industry for entry by foreign competitors to promote healthy competition in the industry. By May 2020, 217 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 993 outlets.

According to the 2019 Economic Performance of the Software Industry report of Ministry of Industry and Information Technology (MIIT), China's software and information technology service industry shows a steady development trend, with rapid growth in income and profits and steady increase in the number of employees. Information technology services accelerate the development of cloud, software application servitization, platform trend is obvious; The software industry in the central region grows rapidly, while the eastern region maintains a concentrated and leading development trend.

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 7.2 trillion (USD 1.03 trillion) in 2019, an increase of 15.4% compared to 2018, with the same growth rate. Industry profits grew steadily. In 2019, the industry achieved a total profit of RMB 936 billion (USD 134.4 billion), an increase of 9.9% 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 2019, the industry's revenue from information technology services reached RMB 4.3 trillion (USD 617 billion), an increase of 18.4% over the previous year. The growth rate was 3% higher than the industry's average, accounting for 59.3% of the industry's revenue. Among them, e-commerce platform technical services revenues reached RMB 0.8 trillion (USD 114 billion), an increase of 28.1% over the previous year.
- **Software products** —In 2019, the industry's revenue from software products reached RMB 2.01 trillion (USD 288 billion), an increase of 12.5% over the previous year, accounting for 28.0% of the industry's revenue. Among them, the revenues from industrial software products are RMB 172.0 billion (USD 24.7 billion), an increase of 14.6%. playing an important role in supporting the independent and controllable development of the industrial sector.
- **Embedded system software** —The revenue of embedded system software reached RMB 782.0 billion (USD 112.3 billion), an increase of 7.8% over the previous year, accounting for 10.9% of the industry's revenue. Embedded system software has become a key driving technology for digital transformation of products and equipment and intelligent value-added in various fields.
- **Development on regional level** —The eastern region has developed steadily, and the software industry in the central and western regions increased. In 2019, revenue from software business completed in eastern regions reached RMB 5.7 trillion (USD 818 billion), with a growth rate of 15.0% year-on-year, accounting for 79.6% of the national software industry. Revenue from software business completed in central and western regions was RMB 365.5 billion (USD 52.5 billion) and RMB 860.7 billion (USD 123.6 billion), with a growth rate of 22.2% and 18.1%, accounting for 5.1% and 12.0 % of the national software industry, respectively, an increase of 0.1% and 0.6% from the previous year. Software business revenue in northeast China reached RMB 235.0 billion (USD 33.8 billion), accounting for 3.3% of the national software industry, an increase of 5.5% 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 needs in business development, strategic development, and management efficiency. The market share of China's Banking IT Solution Industry from 2010 are shown as below:



Data Source: IDC data

According to IDC's 2019 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 People's Bank of China established the financial science and technology commission in 2017, after that, issued "FinTech Development Plan (2019-2021)" on August 22, 2019, fully highlighted the positive attention and support in the field of financial technology in China. For the financial industry, it is a powerful drive to accelerate the applications of technologies. With the highest informationization level of financial sector, banking is affected by the Plan.

\* Under the trend of deepening the application of financial technology, the practice cases of distributed, cloud computing, big data, artificial intelligence, blockchain and other emerging technologies in the banking industry are increasingly rich, especially the wave of distributed architecture transformation, leading a new round of IT construction business cycle in the banking industry. On the one hand, the traditional centralized core business system is facing the dual pressure of cost and performance, institutions need to evaluate their own business needs and selectively transform and replace the core system; on the other hand, the core system connects with many types of peripheral systems, such as credit system, payment system, channel system, management system, etc., under the influence of core system reformation, banks will release a large number of demands in transforming peripheral system.

In 2019, the overall market size of China's banking IT solution market reached RMB 42.58 billion (USD 6.1 billion), an increase of 23.9% over 2018. In this annual report, IDC made an overall adjustment to historical data based on changes in statistical caliber, which brought the overall market size of China's banking IT solution market to RMB 34.37 billion (USD 4.9 billion) in 2018. IDC predicts that by 2024, the scale of China's banking IT solution market will reach RMB 127.35 billion (USD 18.3 billion).

With the introduction of "FinTech Development Plan", the commercialization practice of emerging technologies has become more and more abundant. In the environment of comprehensive promotion of digital transformation, banks need to support business innovation transformation through technical route transformation, and the investment determination and strength in IT construction and transformation have been significantly improved. The banking industry is accelerating the exploration of distributed innovation, and most manufacturers have launched a new generation of solutions that support both centralized and distributed applications. The overall competitive ecology of supply and demand sides of the industry is reshaping, and the future incremental market of banking IT solutions is expected.

Our primary focus is in the following key operational areas:

### **Banking**

Providing professional IT consulting and solutions for the banking industry is one of the traditional competitive advantages of CLPS. With more than 15 years of experience in helping leading global banks to implement banking systems, CLPS is committed to innovating and optimizing traditional banking system by utilizing cutting-edge fintech technology to enable institutions embrace banking.

CLPS has formed strategic partnerships with several global financial MNCs to provide banking IT services, help leading global banks to implement banking system and to enable them to test and enhance multiple functions such as loans, saving, deposit, general ledger, account management, anti-money-laundering, risk control and credit card system. Whether traditional or online banking, CLPS has a wide array of business modules at its disposal.

CLPS has a deep understanding of the market supply and demand buoyed by its more than a decade experience in traditional banking business. CLPS provides IT services in the banking industry, including but not limited to bank channel services such as mobile banking and online banking; business services such as marketing and risk control, among others; management services such as customer relationship management, business intelligence, and information security management, to name a few.

By integrating its internal resources, CLPS has been able to continue to invest and develop series of R&D products, including credit card system, integrated transaction acquiring platform, reward points terminal, and virtual bank training platform, among others. These products have achieved positive feedback from the market.

For the year ended June 30, 2020, revenues from our banking area were approximately \$44.5 million compared to \$33.1 million for the year ended June 30, 2019. Revenues from our banking area accounted for 49.8% and 51.2% of our total revenues in fiscal 2020 and 2019 respectively.

Significant portion of our services caters the banking clients.

#### *Credit Card Area*

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 service in the credit card area. The IT consulting professional teams provides service in the credit card area 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.

For the year ended June 30, 2020, revenues from our credit card area were approximately \$9.5 million compared to \$3.5 million for the year ended June 30, 2019. Revenues from our credit card area accounted for 21.3% and 10.4% of our banking revenues in fiscal 2020 and 2019 respectively.

#### *Core Banking Area*

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 year ended June 30, 2020, revenues from our core banking area were approximately \$35.0 million compared to \$29.7 million for the year ended June 30, 2019.

### **Wealth Management**

In this annual report, "wealth management" refers to the segments of financial industry except banking, including but not limited to investment banking, funds, insurance, securities, futures, clearing, consumer financing, online financing, and supply chain financing. CLPS has in-depth industry knowledge and solutions in the field of wealth management, and constantly develops and innovates according to the needs of clients.

In the past years, we have successfully developed and managed a variety of IT systems for Chinese and global clients, including the development of asset management system, core insurance system, pension system for well-known international investment bank, large international insurance group, and leading asset management corporation. We also provided development, operation, and maintenance for data analysis and business management systems of China's national financial information platform, China's national clearing house, stock exchange, and several large security institutions in China. In addition, we have developed mobile terminal for multiple comprehensive financial service providers and consumer finance platforms both in China and globally.

For the year ended June 30, 2020, revenues from our wealth management area were approximately \$19.2 million compared to \$14.5 million for the year ended June 30, 2019. Revenues from our wealth management area accounted for 21.5% and 22.4% of our total revenues in fiscal 2020 and 2019 respectively.

### ***E-Commerce***

By constantly improving our capabilities, we have gradually extended our main service offerings from banking and financial institutions to e-Commerce industry. We have rapidly developed and accumulated certain skills in online platforms, cross-border e-commerce, logistics, and back-end technology such as big data analysis, and intelligent decision-making among others. In the past years, we have successfully provided IT system development delivery for domestic and international clients, including a global online trading project for a top US e-Commerce company. We have also developed the global terminal, payment, and risk control system for a well-known online ticketing website. In addition, CLPS has developed the website and product market data analysis for a leading and international travel e-commerce platform, and the e-Commerce platform for a large investment holding group in China.

For the year ended June 30, 2020, revenues from our e-Commerce area were approximately \$11.1 million compared to \$8.7 million for the year ended June 30, 2019. Revenues from our e-Commerce area accounted for 12.4% and 13.4% of our total revenues in fiscal 2020 and 2019, respectively.

### ***Automotive***

With the extensive experience of CLPS in the IT services application in the financial and e-commerce industries, and its innovative implementation of cutting-edge technology such as big data, artificial intelligence and robotic process automation (RPA), it has also extended its business to automotive industry.

There is a high demand of intelligent technology application in automobile industry in the recent years. Aside from providing internal management system development for several international automobile enterprises, we also get deeply involved in the development of autonomous driving, automatic control, and other AI-driven technology projects with several major clients. This includes the development of a new-energy vehicle intelligent platform for a large automotive group company in China and a car's multimedia software for a Chinese automotive information system company. Moreover, we also provide development of internet auto finance platform for several Chinese enterprises.

For the year ended June 30, 2020, revenues from our automotive area were approximately \$3.6 million compared to \$2.0 million for the year ended June 30, 2019. Revenues from our automotive area accounted for 4.1% and 3.2% of our total revenues in fiscal 2020 and 2019 respectively.

Our business scope in terms of services:

### ***Consulting Services***

Revenues from consulting services are recognized from time-and-expense basis contracts 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.

We provide consulting services to our clients in the banking, wealth management, e-commerce, and automotive industries, among others.

For the years ended June 30, 2020 and 2019, revenues from our IT consulting services were approximately USD 87.1 million and USD 61.8 million, respectively. Revenues from our IT consulting services accounted for 97.5% and 95.1% of our total revenues in fiscal 2020 and 2019, respectively.

## **Solution Services**

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 provides customized solution services to our clients in the banking, wealth management, e-commerce, and automotive industries, among others.

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, 2020 and 2019, revenues from our customized IT solution services were approximately USD 1.8 million and USD3.0 million, respectively. Revenues from our customized IT solution services accounted for 2.1% and 4.7% of our total revenues in fiscal years 2020 and 2019, 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 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.

### *Recruitment and Headhunting*

As per client's request, we are capable of providing the most suitable person for a position. The Company maintains more than 100 talent acquisition staff with rich industry background and knowledge. Our recruitment centers are well equipped of advanced technology, such as cloud platforms, big data, and robotic process automation (RPA), to accelerate the talent acquisition process. As a result, CLPS obtains qualified talent, reduce talent acquisition costs, meet the growing demands of talent from its existing and potential clients, and achieve meaningful growth.

### *Fee-For-Service Training*

Under the fee-for-service training, we incur charges for clients based on their training needs. Generally, it includes 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. However, the training content and approach can be customized based on the client's training needs.

## 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 TCP and 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.
- *Continue to implement our global expansion strategy* — We remain focused on investing in our long-term sustainable growth and delivering on our dual-engine strategy of horizontal and vertical expansion. We will continue to pursue growth in our global footprint and market share as well as in technological and talent development. By delivering on our strategy, we expect to drive shareholder value.

## **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, strategic engagement with blue-chip clients, 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.

### **1. Breadth and depth of digital transformation service offerings**

CLPS provides staffing-based consulting services, turn-key financial solutions, and implementation of advanced technologies, enabling clients to build new or enhance their existing systems. We are fully committed of providing digital transformation services with focused on financial and technology in the banking, wealth management, e-commerce, and automotive industries, among others, through the utilization of innovative technology to achieve our client's goals.

We are dedicated to providing a full range of services and solutions across technology needs in finance. We are able to provide both development and implementation of core banking, credit card, online and e-commerce systems, as well as expertise across technology stacks. More recently, we have tested and piloted leading edge technologies including cloud transitions, robotic process automation, big data and blockchain. We are also exploring applications in artificial intelligence.

### **2. Talent Creation Program and Talent Development Program**

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.

### 3. Leading provider of human capital in the financial and technology industry

CLPS is a leading provider of IT professionals in the financial and technology industry, such in banking, wealth management, e-commerce, automotive, and others. We create, develop, and maintain a large pool of qualified and rich experienced talents, with bilingual or multilingual capability so support the client's communication need, which is vital for a business' success.

Our greatest edge in terms of human capital is our employees' English communication skills capability and are familiar with international financial business environment. In terms of our overall IT skills, we maintain even distribution and relatively adequate resources of talent pool with capabilities in Java, Cobol, quality control, and other cutting-edge technology such as data analysis.

### 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.
- *Wealth Management* — AIA, China Life Insurance, First Data, Haitong Securities, and Orient Securities.
- *E-Commerce* — eBay and PayPal.
- *Automotive and Technology* — SAIC Motors, Sony, Cisco, CRIF Information Technology, Experian, AGFA Healthcare, Neusoft, and Kodak.

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, 2020, our business development teams consisted of 28 full-time sales and marketing personnel, including 22 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

Officially named the CLPS Innovation Lab ("CLPS i-Lab"), our R&D is an integral part of our continued growth. In order to serve our Chinese and global clients' needs better, we are fully committed on researching and developing cutting-edge technology including distributed application systems, cloud computing, micro services, open API, robotic process automation (RPA), blockchain, and big data, among other technologies, with a focus on continuous scientific and technological innovation to provide clients with more comprehensive and efficient IT services.

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 upgraded our credit card system product, and it is currently in its final phase of testing. Through the joint effort of CLPS Innovation Lab 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.

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.

We integrated the Company's successful applications of advanced technologies, such as cloud platforms, big data, and robotic process automation (RPA), to our recruitment centers, which enables the acceleration of talent acquisition process. As a result, CLPS will be able to obtain qualified talent, reduce talent acquisition costs, meet the growing demands of talent from its existing and potential clients, and achieve meaningful growth.

CLPS i-Lab adheres to our strategy of promoting our products and solutions based on new technology and new research, application innovations, and our leading talent pool, while improving our technological innovation capability and market competitiveness. As the center of our research and development efforts, it will continue to be one of the most important drivers of CLPS's growth.

## 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 2,085 employees in fiscal 2019 to 2,746 employees as of June 30, 2020. Approximately 66.5% 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 2019, protects registered trademark. 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, five of which are registered and four 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
	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.	Registered

We have applied to register the following trademarks:

<b>Mark</b>	<b>Country of Registration</b>	<b>Application Number</b>	<b>Class/Description</b>	<b>Current Owner</b>	<b>Status</b>
	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	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:

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

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

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

<b>Software Name</b>	<b>Country of Registration</b>	<b>Registration Number</b>	<b>Current Owner</b>	<b>Approval Date</b>	<b>Status</b>
CLPS Blockchain Based Virtual Credits Background Management Software V2.0	China	2017SR645676	ChinaLink Professional Services Co., Ltd.	24 <sup>th</sup> November 2017	Registered
CLPS Enterprise Talent Information Intelligent Management Software V2.0	China	2017SR645650	ChinaLink Professional Services Co., Ltd.	24 <sup>th</sup> November 2017	Registered
CLPS Credit Card Big Data Integrated Management Background Software V2.0	China	2017SR645763	ChinaLink Professional Services Co., Ltd.	24 <sup>th</sup> November 2017	Registered
CLPS Enterprise Recruitment Intelligent Cooperation Platform Software V2.0	China	2017SR647190	ChinaLink Professional Services Co., Ltd.	24 <sup>th</sup> November 2017	Registered
CLPS General Points Platform and Business Center Software V1.0	China	2019SR0004653	ChinaLink Professional Services Co., Ltd.	2 <sup>nd</sup> January 2019	Registered
CLPS Online Financial Microloan Software V1.0	China	2019SR0004669	ChinaLink Professional Services Co., Ltd.	2 <sup>nd</sup> January 2019	Registered
CLPS Bank Customer Management Software V1.0	China	2019SR0004663	ChinaLink Professional Services Co., Ltd.	2 <sup>nd</sup> January 2019	Registered
CLPS Online Financial Management Software V1.0	China	2019SR0140935	ChinaLink Professional Services Co., Ltd.	14 <sup>th</sup> February 2019	Registered
CLPS Talent Training One-Stop Platform Software V1.0	China	2020SR0094641	ChinaLink Professional Services Co., Ltd.	19 <sup>th</sup> January 2020	Registered
CLPS Project Management Software [PMS]V2.0	China	2020SR0095716	ChinaLink Professional Services Co., Ltd.	19 <sup>th</sup> January 2020	Registered
CLPS Online Financial Management Software V2.0	China	2020SR0095716	ChinaLink Professional Services Co., Ltd.	19 <sup>th</sup> January 2020	Registered
CLPS Online Financial Microloan Software V3.0	China	2020SR0094745	ChinaLink Professional Services Co., Ltd.	19 <sup>th</sup> January 2020	Registered
CLPS Bank Customer Management Software V3.0	China	2020SR0095318	ChinaLink Professional Services Co., Ltd.	19 <sup>th</sup> January 2020	Registered
CLPS Online Financial Accounting Management Software V1.0	China	2020SR0095725	ChinaLink Professional Services Co., Ltd.	19 <sup>th</sup> January 2020	Registered

## Properties

On May 2020, we relocated our principal executive office to Unit 702, 7th Floor, Millennium City II, 378 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong SAR from 2nd Floor, Building 18, Shanghai Pudong Software Park, 498 Guoshoujing Road, Pudong District, Shanghai, PRC. We lease the premise and the lease term expires on May 5, 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 \$944,645, \$827,593, and \$730,705 for the years ended June 30, 2020, 2019 and 2018, respectively. We believe our facilities are adequate for our current needs.

Facility	Address	Space (m2)
Shanghai Office	2 <sup>nd</sup> Floor, Building 18, Shanghai Pudong Software Park, 498 Guoshoujing Road, Pudong District, Shanghai, PRC	1,259.94
Shanghai Office	Room 302, 3 <sup>rd</sup> Floor, Building 10, Shanghai Pudong Software Park, 498 Guoshoujing Road, Pudong District, Shanghai, PRC	741.16
Shanghai Office	1 <sup>st</sup> 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 2007-2010, 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
Guangzhou Office	Room 4006, Central District, 298 Yanjiang Road, Yuexiu District, Guangzhou, Guangdong Province, PRC	86.34
Chengdu Office	Unit 10, 29/Floor, Tower 2, 88 Jitai 5 <sup>th</sup> Road, Gaoxin District, Chengdu, Sichuan District, PRC	59.74
Beijing Office	Room 1329-1332, 13 <sup>th</sup> Floor, Building 2, Yard 26, Chengtong Road, Shijingshan District, Beijing, PRC	222.88
Baoding Office	Room 710-712, 7 <sup>th</sup> 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	10 UBI Crescent, #03-29, UBI Techpark, Singapore, 408564	84
Singapore Office	141 Cecil Street, #06-07, Tung Ann Association Building, Singapore, 069541	300
Hong Kong Office	Unit 702, Level 7, Millennium City II, 378 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong	92.53
Japan Office	Room 304 Tennsyou Ochanomizu Building, Awajityou 1-9-5, Chiyoda-ku Tokyo, Japan, 101-0063	7.75
India Office	Unit No. 222, DLF Cybercity, Idco Info Park, Technology Corridor, Chandaka Industrial Estate, Bhubaneswar, Odisha, India, 751024	170
US Office	1161 Mission Street, San Francisco, CA 94103	6

## **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 Catalogue of Industries for Encouraging Foreign Investment (2019) 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.

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.

**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 2018, the Foreign Investment Law of the People's Republic of China (2020), and the Implementing Regulations of the Foreign Investment Law of the People's Republic of China (2020).

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.

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 Foreign Investment Law of the People's Republic of China (2020) 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, Southeast Asia, 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 are fully committed of providing digital transformation services with focused on financial and technology in the banking, wealth management, e-commerce, and automotive industries, among others, through the utilization of innovative technology to achieve our client’s goals. We maintain 18 delivery and/or R&D centers, of which ten are located in Mainland China (Shanghai, Beijing, Dalian, Tianjin, Baoding Chengdu, Guangzhou, Shenzhen, Hangzhou, and Suzhou) and eight are located globally (Hong Kong SAR, USA, UK, Japan, Singapore, Malaysia, Australia, and India. 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, 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-Ridik 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. CLIVST was liquidated on June 20, 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 January 2, 2020, CLPS US incorporated CLPS Technology (California) Inc. (“CLPS California”) to develop the 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). In April 2020, the Company sold an 18.42% equity interest in CLPS Lihong for the consideration of \$995,605 (RMB 7 million) to the third party and the consideration has been received as of June 30, 2020. After the third party’s capital increase in CLPS Lihong in April 2020, the Company’s remaining equity interest in CLPS Lihong was diluted to 7% as of June 30, 2020.

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-Ridik 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-Ridik 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 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 \$0.44 million (RMB 3 million) to EMIT directly. There is remaining capital contribution of \$0.21 million not paid as of June 30, 2020.

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

On September 13, 2019, the Company incorporated CLPS Technology Japan (“CLPS Japan”) to develop business in related areas.

On September 26, 2019, Qiner acquired an 80% interest in Ridik Pte. Ltd. (“Ridik Pte.”) located in Singapore from Srustijeet Mishra and Routray Sibashis with the final purchase price of \$2,462,580 (3,402,304 Singapore dollars), in the form of cash of \$2,026,043 (2,799,180 Singapore dollars) and the Company’s common shares valued at \$436,537 (603,123 Singapore dollars), respectively. Ridik Sdn. Bhd. (“Ridik Sdn.”), Ridik Software Solutions Pte. Ltd. (“Ridik Software Pte.”) and Ridik Software Solutions Ltd. (“Ridik Software”) are all subsidiaries of Ridik Pte.

Prior to December 2019, CLPS Shanghai held a 70% equity interest of CLPS Shenzhen and an 80% equity interest of CLPS Hong Kong, which held the remaining 30% equity interest of CLPS Shenzhen. And the remaining 20% equity interest of CLPS Hong Kong and remaining 6% equity interest of CLPS Shenzhen were recorded as non-controlling interests on the Company’s consolidated balance sheet. On December 9, 2019, Qiner acquired the remaining 20% equity interest of CLPS Hong Kong from non-controlling shareholder with the consideration of the Company’s 100,000 common shares, and became the sole shareholder of CLPS Hong Kong and CLPS Shenzhen.

On December 31, 2019, the Company incorporated Qinson Credit Card Services Limited (“Qinson”) to develop business in related areas.

On January 6, 2020, Ridik Pte. acquired 100% equity interest in Ridik Consulting Private Limited (“Ridik Consulting”) from third-party selling shareholders with the final purchase price of \$5,520 (396,700 Indian Rupees).

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, 2020, 2019 and 2018, our revenues were \$89.4 million, \$64.9 million and \$48.9 million, respectively. Revenues generated outside of China were approximately \$10.6 million, \$4.5 million and \$1.7 million for fiscal 2020, 2019 and 2018, respectively. We had a net income of \$3.1 million in fiscal 2020, a net loss of \$3.4 million in fiscal 2019, and a net income of \$2.7 million in fiscal 2018, respectively. We had a non-GAAP net income of \$7.1 million in fiscal 2020. Our total assets as of June 30, 2020 were \$45.4 million of which cash and cash equivalent amounted to \$12.7 million. Our total liabilities as of June 30, 2020 were \$16.7 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 2020, our revenue derived from our IT consulting services increased by 41.1% or \$25.3 million from fiscal 2019, mainly attributable to revenue growth from our existing clients. IT consulting services revenue from new clients amounted to approximately \$9.4 million in fiscal 2020. 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.
- 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:

	<b>Amounts</b>
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.

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:

	<b>Amounts</b>
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).

In April 2020, the Company sold an 18.42% equity interest in CLPS Lihong to the third party for the consideration of \$995,605 (RMB 7 million) which was received as of June 30, 2020. Concurrently CLPS Lihong raised additional capital from other third party investors, and the Company's remaining equity interest in CLPS Lihong was diluted to 7% as of June 30, 2020. The Company recognized the remaining equity interest in CLPS Lihong as equity investment without readily determined fair value since May 2020. For the period from July 1, 2019 to April 30, 2020, the Company's share of CLPS Lihong's results of operations was income of \$250,290 (RMB 1,759,764).

### **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 and became the sole shareholder of CLPS Beijing. 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 third-party valuation report.

### **Investment in EMIT**

On April 3, 2019, Qiner purchased a 30% equity interest of EMIT at nil consideration. with a committed to invest \$445,454.14 (RMB 3,000,000.00) in total within 20 years. During the years ended June 30, 2020 and 2019, the Company made capital contribution to EMIT of \$143,299 (RMB 1,000,000.00) and \$73,593 (RMB500,000.00), respectively. The Company accounts for the investment in EMIT as an equity method investment due to its significant influence over the entity. For the years ended June 30, 2020 and 2019, the Company's share of EMIT's results of operations was a loss of \$42,927 (RMB 301,878) and \$4,230 (RMB 28,853), respectively. As the end of June 30, 2020 and 2019, the committed but not yet made investment in EMIT was \$228,561 (RMB 1,500,000.00) and \$371,860 (RMB 2,500,000.00), respectively.

### Acquisition of Ridik Pte. and Ridik Consulting

On September 26, 2019, Qiner acquired an 80% equity interest in Ridik Pte. Ltd. (“Ridik Pte.”) located in Singapore from third-party selling shareholders with the final purchase price of \$2,462,580 (3,402,304 Singapore dollars), in the form of cash of \$2,026,043 (2,799,180 Singapore dollars) and the Company’s common shares valued at \$436,537 (603,123 Singapore dollars), respectively. Ridik Sdn. Bhd. (“Ridik Sdn.”), Ridik Software Solutions Pte. Ltd. (“Ridik Software Pte.”) and Ridik Software Solutions Ltd. (“Ridik Software”) are all subsidiaries of Ridik Pte.

The transactions were accounted for as business combinations using the purchase method of accounting. The purchase price allocations of the transactions were 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 dates. The most significant variables in the valuation are discount rates, 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:

	<b>Amounts</b>
Cash acquired	\$ 474,323
Accounts receivable, net	618,144
Prepayments, deposits and other assets, net	103,697
Property and equipment, net	1,493
Customer relationship	904,748
Short-term bank loans	(48,103)
Accounts payable and other current liabilities	(128,688)
Tax payables	(102,978)
Salaries and benefits payable	(431,548)
Long-term bank loans	(44,201)
Deferred tax liabilities	(162,855)
Non-controlling interests	(411,351)
Goodwill	1,689,899
Total consideration	<u>\$ 2,462,580</u>

Identifiable intangible assets acquired included customer relationship, which was valued using an income approach and determined to carry estimated remaining useful life of approximately ten years.

On January 6, 2020, Ridik Pte. acquired 100% equity interest in Ridik Consulting Private Limited (“Ridik Consulting”) from third-party selling shareholders with the final purchase price of \$5,520 (396,700 Indian Rupees). The fair value of the net liabilities acquired was \$3,839 (275,800 Indian Rupees) and goodwill was recognized at \$9,359 (672,500 Indian Rupees).

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

## 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,		
	2020	2019	2018
Revenues	\$ 89,415,798	\$ 64,932,937	\$ 48,938,593
Less: Cost of revenues	(58,296,097)	(41,178,356)	(31,277,255)
Gross profit	<u>31,119,701</u>	<u>23,754,581</u>	<u>17,661,338</u>
Operating expenses:			
Selling and marketing expenses	3,059,877	2,179,029	2,225,702
Research and development expenses	10,436,975	7,978,883	7,837,873
General and administrative expenses	16,343,936	17,384,393	5,871,622
Total operating expenses	<u>29,840,788</u>	<u>27,542,305</u>	<u>15,935,197</u>
Income (loss) from operation	1,278,913	(3,787,724)	1,726,141
Subsidies and other income, net	2,535,868	779,508	960,784
Other expenses	<u>(107,322)</u>	<u>(92,429)</u>	<u>(84,155)</u>
Income (loss) before income tax and share of loss in equity investees	3,707,459	(3,100,645)	2,602,770
Provision (benefits) for income taxes	835,444	186,615	(112,128)
Income (loss) before share of income (loss) in equity investees	<u>2,872,015</u>	<u>(3,287,260)</u>	<u>2,714,898</u>
Share of income (loss) in equity investees, net of tax	<u>207,363</u>	<u>(145,329)</u>	<u>-</u>
Net income (loss)	3,079,378	(3,432,589)	2,714,898
Less: Net income (loss) attributable to non-controlling interests	141,139	(162,813)	280,435
<b>Net income (loss) attributable to CLPS Incorporation's shareholders</b>	<b><u>\$ 2,938,239</u></b>	<b><u>\$ (3,269,776)</u></b>	<b><u>\$ 2,434,463</u></b>
Basic earnings (loss) per common share	0.20	(0.24)	0.21
Weighted average number of share outstanding – basic	14,689,224	13,843,764	11,517,123
Diluted earnings (loss) per common share	0.20	(0.24)	0.21
Weighted average number of share outstanding – diluted	14,692,299	13,843,764	11,636,367
<b>Supplemental information:</b>			
Non-GAAP income before income tax	7,711,539	3,915,444	2,602,770
Non-GAAP net income	7,083,458	3,583,500	2,714,898
Non-GAAP net income attributable to CLPS Incorporation's shareholders	6,942,319	3,746,313	2,434,463
Non-GAAP basic earnings per common share	0.47	0.27	0.21
Weighted average number of share outstanding – basic	14,689,224	13,843,764	11,517,123
Non-GAAP diluted earnings per common share	0.47	0.27	0.21
Weighted average number of share outstanding – diluted	14,692,299	13,969,436	11,636,367

### 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:

	<b>For the year ended June 30, 2020</b>
Cost of revenues	58,296,097
Less: share-based compensation expenses	14,110
<b>Non-GAAP cost of revenues</b>	<b>58,281,987</b>
Selling and marketing expenses	3,059,877
Less: share-based compensation expenses	211,573
<b>Non-GAAP selling and marketing expenses</b>	<b>2,848,304</b>
General and administrative expenses	16,343,936
Less: share-based compensation expenses	3,778,397
<b>Non-GAAP general and administrative expenses</b>	<b>12,565,539</b>
Income before income tax	3,707,459
Add: share-based compensation expenses	4,004,080
<b>Non-GAAP income before income tax and share of income of equity investees</b>	<b>7,711,539</b>
Net income	3,079,378
Add: share-based compensation expenses	4,004,080
<b>Non-GAAP net income</b>	<b>7,083,458</b>
Net income attributable to CLPS Incorporation's shareholders	2,938,239
Add: share-based compensation expenses	4,004,080
<b>Non-GAAP net income attributable to CLPS Incorporation's shareholders</b>	<b>6,942,319</b>
Weighted average number of share outstanding used in computing GAAP and non-GAAP basic earnings	14,689,224
GAAP basic earnings per common share	0.20
Add: share-based compensation expenses	0.27
<b>Non-GAAP basic earnings per common share</b>	<b>0.47</b>
Weighted average number of share outstanding used in computing GAAP diluted earnings	14,692,299
Add: effect of dilutive securities	-
Weighted average number of share outstanding used in computing non-GAAP diluted earnings	14,692,299
GAAP diluted earnings per common share	0.20
Add: share-based compensation expenses	0.27
<b>Non-GAAP diluted earnings per common share</b>	<b>0.47</b>

*For the Years Ended June 30, 2020 and 2019*

**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 with acceptance requirement, which are billed either on a time-and-expense basis with enforceable right to payment or on a fixed-price basis, and (iii) other revenue from product and third-party software sales, training and headhunting.

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.

The following table presents our revenues by our service lines.

	For the Year ended June 30,					
	2020		2019		Variance	Variance %
	Revenue	% of total Revenue	Revenue	% of total Revenue		
IT consulting services	\$87,136,754	97.5%	\$61,755,355	95.1%	\$25,381,399	41.1%
Customized IT solution services	1,844,891	2.1%	3,041,482	4.7%	(1,196,591)	(39.3)%
Other	434,153	0.5%	136,100	0.2%	298,053	219.0%
Total	<u>\$89,415,798</u>	<u>100.0%</u>	<u>\$64,932,937</u>	<u>100.0%</u>	<u>\$24,482,861</u>	<u>37.7%</u>

Our total revenues increased by approximately \$24.5 million, or 37.7%, to approximately \$89.4 million for the fiscal year ended June 30, 2020 from approximately \$64.9 million for the fiscal year ended June 30, 2019. The overall growth in our revenues reflects an increase in revenues from our IT consulting services and derived primarily from existing customers.

For the year ended June 30, 2020, revenue derived from our IT consulting services increased by 41.1% to \$87.1 million from \$61.8 million in fiscal 2019, primarily reflecting the increasing demands for our IT consulting services from banks and other financial institutions. For fiscal 2020 and 2019, 40.0% and 47.5% of our IT consulting services revenue were from international banks, respectively. In fiscal 2020, we strengthened our expertise in the financial industry to leverage our existing industry knowledge and grew our customer base of local Chinese financial institutions.

Revenue from customized IT solution services decreased by \$1.2 million, or 39.3%, to \$1.8 million for the year ended June 30, 2020, from \$3.0 million in the same period of the previous year. The decrease was primarily due to decreasing demand from existing clients.

Revenue from other services increased by \$0.3 million, or 219.0%, to \$0.4 million for the year ended June 30, 2020, from \$0.1 million in the prior year period.

The number of clients increased by 53, or 30%, to 227 for the year ended June 30, 2020 from 174 in the prior year period. Revenues from top five clients accounted for 47.3% and 50.7% of the Company's total revenues for fiscal 2020 and 2019, respectively, which reflects decreased in revenue dependence from major clients.

Revenue generated outside of mainland China for the year ended June 30, 2020 accounted for 11.8% of total revenue compared to 7.0% in the prior year period. The increase in revenue generated outside of mainland China reflects the Company's successful and continuous global expansion strategy.

### ***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 \$17.1 million or 41.6% to approximately \$58.3 million in fiscal 2020 from approximately \$41.2 million in fiscal 2019 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 65.2% and 63.4% for fiscal 2020 and 2019, respectively. Our total number of employees grew from 2,085 employees as of June 30, 2019 to 2,746 employees as of June 30, 2020.

### ***Gross profit and gross margin***

Our gross profit increased by \$7.3 million, or 31.0%, to approximately \$31.1 million in fiscal 2020 from approximately \$23.8 million in fiscal 2019. The higher gross profit in fiscal 2020 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 34.8% in fiscal 2020 from 36.6% 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 increased by \$0.9 million or 40.4% from \$2.2 million in fiscal 2019 to \$3.1 million in fiscal 2020. Accordingly, as a percentage of sales, our selling expenses were 3.4% of revenues in fiscal 2020 same as 3.4% in fiscal 2019. 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 \$10.4 million in fiscal 2020, which increased by \$2.4 million or 30.8% compared to \$8.0 million in fiscal 2019, representing 11.7% and 12.3% of our total revenues for fiscal 2020 and 2019, respectively. We expect to keep our investment in research and development relatively stable 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 decreased by \$1.1 million, or 6.0%, to \$16.3 million in fiscal 2020 from \$17.4 million in the prior year. After the deduction of \$3.8 million non-cash share-based compensation expenses related to the grants under the 2017 and 2019 Incentive Compensation Plan, non-GAAP general and administrative expenses increased by \$2.1 million, or 20.5%, to \$12.6 million in fiscal 2020 from \$10.4 million in the same period of the previous year. The increase in non-GAAP administrative expenses was primarily due to an increase in administrative personnel and M&A related expenses as a result of business expansion.

### ***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 \$1.8 million and \$0.7 million for the years ended June 30, 2020 and 2019, respectively.

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

Income (loss) before income taxes and share of income (loss) in equity investees increased by \$6.8 million to a \$3.7 million income in fiscal 2020 from a loss of \$3.1 million in fiscal 2019. After the deduction of non-cash share-based compensation expenses, non-GAAP income before income taxes and share of income in equity investees increased by \$3.8 million, or 97%, to \$7.7 million in fiscal 2020 from \$3.9 million in the same period of the previous year.

### ***Provision (benefits) for income taxes***

Our provision for income taxes in fiscal 2020 increased by \$0.6 million to \$0.8 million from \$0.2 million benefit for income taxes in fiscal 2019, mainly due to the increase of Company’s income before tax and the reversal of the beginning balances of deferred tax assets related to the net operating losses for some of the Company’s subsidiaries.

### ***Share of income (loss) in equity investees, net of tax***

The share of income in equity investees, net of tax in fiscal 2020 was net equity investment income of Lihong and EMIT. 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 increased by \$6.5 million to an income of \$3.1 million in fiscal 2020 from a loss of \$3.4 million in fiscal 2019. After the deduction of \$4.0 million non-cash share-based compensation expenses, non-GAAP net income increased by \$3.5 million, or 97.7%, to \$7.1 million in fiscal 2020 from \$3.6 million in the previous year.

### Other comprehensive income (loss)

Foreign currency translation adjustments amounted to loss of \$0.5 and \$0.4 million for the years ended June 30, 2020 and 2019, respectively. The balance sheet amounts with the exception of equity as of June 30, 2020 were translated at 7.0651 RMB to 1.00 USD as compared to 6.8650 RMB to 1.00 USD as of June 30, 2019. 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, 2020 and 2019 were 7.0309 RMB to 1.00 USD and 6.8211 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, 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	<u>\$64,932,937</u>	<u>100.0%</u>	<u>\$48,938,593</u>	<u>100.0%</u>	<u>\$15,994,344</u>	<u>32.7%</u>

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 reflects 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 \$6.1million 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.

### Liquidity and Capital Resources

As of June 30, 2020, we had cash and cash equivalents of approximately \$12.7 million. Our current assets were approximately \$40.5 million, and our current liabilities were approximately \$16.5 million. Total shareholders' equity as of June 30, 2020 was approximately \$28.6 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, 2020, cash and cash equivalents of approximately \$11,027,764, \$940,854, \$8,350, \$516,816, \$1,496, \$58,789 and \$98,051 were held by the Company and its subsidiaries in Mainland China, Singapore, Australia, Hong Kong, India, Malaysia and Japan, 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, 2020. 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,		
	2020	2019	2018
Net cash provided by (used in) operating activities	\$ 5,931,124	\$ 401,107	\$ (4,772,610)
Net cash provided by (used in) investing activities	173,229	(3,862,360)	(492,672)
Net cash provided by financing activities	125,362	466,782	10,103,240
Effect of exchange rate change	(178,930)	(147,080)	90,360
Net increase (decrease) in cash	6,050,785	(3,141,551)	4,928,318
Cash and cash equivalents at the beginning of the year	6,601,335	9,742,886	4,814,568
Cash and cash equivalents at the end of the year	\$ 12,652,120	\$ 6,601,335	\$ 9,742,886

### Operating Activities

Net cash provided by operating activities was approximately \$5.9 million in fiscal 2020, including net income of \$3.1 million, adjusted for non-cash items of \$4.4 million 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 the increase in accounts receivable of \$6.6 million due to increased sales in fiscal 2020. During fiscal 2020, our accounts receivable turnover was 91 days, stable with 99 days in fiscal 2019. The adjustments for changes in operating assets and liabilities also included offset with an increase in salaries and benefits payable of \$3.6 million due to unpaid employee compensation and benefits, and an increase in accounts payable and other payables of \$0.1 million in fiscal 2020.

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.

### Investing Activities

Net cash provided by investing activities was approximately \$0.2 million in fiscal 2020, primarily due to our purchase of office equipment and furniture of \$0.2 million, disposition of long term investment of \$1.0 million, our business acquisition of \$1.6 million and short-term investments of \$1.1 million in fiscal 2020, to better manage opportunities and capitalize on the growth potential in the human resource related industry. In fiscal 2020, we paid \$1,844,380 (2,496,000 Singapore dollars) and the Company's common shares valued at \$461,096 (624,000 Singapore dollars) for an 80% of equity interest in Ridik Pte. The Company also injected \$0.14 million (RMB 1,000,000) in EMIT. The Company sold an 18.42% equity interest in CLPS Lihong for the consideration of \$995,605 (RMB 7 million) to the third party.

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.

### Financing Activities

Net cash provided by financing activities was approximately \$0.1 million in fiscal 2020. During the fiscal 2020, we had bank loans of approximately \$3.8 million, repaid loans of approximately \$3.9 million, and received the over-allotment proceeds of \$0.2 million.

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.

### Capital Expenditures

The Company made capital expenditures of \$0.2 million, \$0.5 million and \$0.2 million for the years ended June 30, 2020, 2019 and 2018, 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: 2.1% in 2019 and 1.9% in 2018.

### Contractual Obligations

The Company's subsidiaries lease office spaces under various operating leases. Operating lease expense amounted to \$944,645, \$827,593 and \$730,705 for the years ended June 30, 2020, 2019 and 2018, respectively. The following table sets forth our contractual obligations and commercial commitments as of June 30, 2020:

	Payment Due by Period			
	Total	Less than 1 Year	1-3 Years	More than 3 Years
Operating lease arrangements	\$ 957,245	\$ 775,891	\$ 181,354	\$ -
Bank loans	2,183,793	2,161,239	22,554	-
Total	<u>\$ 3,141,038</u>	<u>\$ 2,937,130</u>	<u>\$ 203,908</u>	<u>\$ -</u>

### ***Subsequent Events***

On July 27, 2020, the Company and a third-party company incorporated CLPS Guangdong Zhichuang Software Technology Co., Ltd. (“CLPS Guangdong Zhichuang”) in Shenzhen. The Company holds 10% of equity interest in CLPS Guangdong Zhichuang for \$0.14 million (RMB 1,000,000). On August 13, 2020, the Company injected \$28,571 (RMB 200,000) to CLPS Guangdong Zhichuang.

On August 28, 2020, the Company, the Chairman of the Company and a third-party incorporated CLPS Shenzhen Robotics Co. Ltd (“CLPS Shenzhen Robotics”) in Shenzhen. The Company holds 10% of equity interest in CLPS Shenzhen Robotics for \$0.14 million (RMB 1,000,000). On September 15, 2020, the Company injected \$147,451 (RMB1,000,000) to CLPS Shenzhen Robotics.

### **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***

Effective July 1, 2019, the Company adopted *Accounting Standards Update (ASU) 2014-09, Revenue from contracts with Customers (Topic 606)* (“ASC 606”) using the modified retrospective approach, which requires the recognition of a cumulative-effect adjustment to retained earnings as of the date of adoption and applies the adoption only to contracts not completed as of July 1, 2019. Prior periods were not retrospectively adjusted. The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

The Company provides a comprehensive range of IT services and solutions, which primarily are on a time-and-expense basis, or fixed-price basis. Commencing on July 1, 2019, revenue is recognized when control of promised goods or services is transferred to the Company’s customers in an amount of consideration to which an entity expects to be entitled to in exchange for those services.

The cumulative effect of initially applying the new revenue standard resulted in a decrease to opening retained earnings of \$138,644, with the impact primarily related to the Company’s customized IT solution services. Under ASC 605, the IT solution services were recognized using the percentage of completion method of accounting; while under ASC 606, the IT solution services are recognized at a point in time when the control of service is obtained by the customer represented by the customer acceptance received by the Company. Whereas the Company has the enforceable right to payment for performance completed to date, revenue is recognized over time, using the output method.

#### ***Time-and-expense basis contracts***

Prior to the adoption of ASC 606, revenues is considered realizable and earned in accordance with ASC 605 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. Accordingly, revenues from time-and-expense basis contracts are recognized as the related services are rendered assuming all other basic revenue recognition criteria are met. The Company is reimbursed for actual hours incurred at pre-agreed negotiated hourly billing rates. Customers 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. Under ASC 606, the series of IT services are substantially the same from day to day, and each day of the service is considered to be distinct and separately identifiable as it benefits the customer daily. Further, the uncertainty related to the service consideration is resolved on a daily basis as the Company satisfies its obligation to perform IT service daily with enforceable right to payment for performance completed to date. Thus, revenue is recognized as service is performed and the customer simultaneously receives and consumes the benefits from the service daily.

### *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.

Prior to the adoption of ASC 606, the Company recognizes revenue proportionally over the term of the contract in accordance with ASC 605. 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. Under ASC 606, there are two performance obligations identified in the fixed-price basis contracts: the delivery of customized IT solution service and the completion of the PCS. The transaction price is allocated between the two performance obligations based on the relative standalone selling price, estimated using the cost plus method.

The Company recognizes revenue for the delivery of customized IT solution service at a point in time when the system is implemented and accepted by the customer. Where the Company has enforceable right to payment for performance completed to date, revenue is recognized over time, using the output method. Revenue for PCS is recognized ratably over time as the customer simultaneously receive and consume the benefits throughout the PCS period.

Differences between the timing of billings and the recognition of revenues are recorded as contract assets which is included in the Prepayments, deposits and other assets, net, or contract liabilities on the consolidated balance sheets. Contract assets are classified as current assets and the full balance is reclassified to accounts receivables when the right to payment becomes unconditional.

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 Company adopted Accounting Standards Update (“ASU”) No. 2017-01, *Business Combinations (Topic 802): Clarifying the Definition of a Business*, in determining whether it has acquired a business from July 1, 2019 on a prospective basis and there was no material impact on the consolidated financial statements.

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. 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, 2020 and 2019. Goodwill was allocated 100% to the single reporting unit as of June 30, 2020 and 2019. 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, 2020, 2019 and 2018.

## **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 life. 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, 2020, 2019 and 2018.

## ***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, 2020, 2019 and 2018. 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 2024, and the examination period was extended to 10 years for entities qualified as High and New Technology Enterprises (“HNTEs”) in 2018 and thereafter.

## ***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 was 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.

A change in any of the terms or conditions of share-based payment awards is accounted for as a modification of awards. The Company measures the incremental compensation cost of a modification as the excess of the fair value of the modified awards over the fair value of the original awards immediately before its terms are modified, based on the share price and other pertinent factors at the modification date. For vested awards, the Company recognizes incremental compensation cost in the period the modification occurred. For unvested awards, the Company recognizes, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

## ***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:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Xiao Feng Yang	57	Chairman of the Board
Raymond Ming Hui Lin	56	Chief Executive Officer and Director
Rui Yang	37	Acting Chief Financial Officer
Li Li	44	Chief Operating Officer
Jin He Shao <sup>(1)(4)</sup>	53	Independent Director
Zhao Hui Feng <sup>(3)</sup>	50	Independent Director
Kee Chong Seng <sup>(2)</sup>	68	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 of the board of the Company. Mr. Yang has over 20 years of executive management and operational experience in the IT services business. From October 2012 to August 2020, Mr. Yang served as chairman and president of CLPS. 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.

**Rui Yang** Ms. Yang has over 10 years of financial experiences in the financial and IT industry. Ms. Yang joined the Company in August 2015 as Vice President for finance controller. From December 2014 to August 2015, Ms. Yang served as financial analyst supervisor at Shanghai Origin International Logistics Co., Ltd. From February 2010 to July 2014, Ms. Yang served as senior financial analyst at Pactera Technology International Ltd. Ms. Yang holds a Bachelor's Degree in Management from Northwest Agriculture and Forestry University and a Master's Degree in Economics from Shanghai University of Finance and Economics. Ms. Yang holds the PRC Certified Public Accountant certificate.

**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.

**Zhao Hui Feng** is an independent director of the Company. From March 2017 to present, Mr. Feng has been the general manager at Dalian Wanda Commercial Properties Co., Ltd. From February 2016 to March 2017, Mr. Feng served as the founder and chief executive officer at Shanghai Gold Education Data System Ltd., Co. From December 2013 to January 2016, Mr. Feng served as the general manager and chief operating officer at Beijing Zhide Chuanghui Network Technology Inc. Mr. Feng received a Master’s Degree in Computer Science from Southern Illinois University and a Bachelor’s Degree in Computer Science and Technology from the University of Science and Technology of China.

**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, 2020, 2019, and 2018.

<b>Name/principal position</b>	<b>Year</b>	<b>Salary</b>	<b>Equity Compensation</b>	<b>All Other Compensation</b>	<b>Total Paid</b>
Xiao Feng Yang, Chairman of the Board <sup>(1)</sup>	2020	\$ 112,762	\$ —	\$ —	\$ 112,762
	2019	\$ 102,827	\$ —	\$ —	\$ 102,827
	2018	\$ 76,338	\$ —	\$ —	\$ 76,338
Raymond Ming Hui Lin, CEO and Director <sup>(2)</sup>	2020	\$ 112,449	\$ —	\$ —	\$ 112,449
	2019	\$ 104,718	\$ —	\$ —	\$ 104,718
	2018	\$ 57,225	\$ —	\$ —	\$ 57,225
Rui Yang, Acting CFO <sup>(3)</sup>	2020	\$ 64,839	\$ —	\$ —	\$ 64,839
	2019	\$ —	\$ —	\$ —	\$ —
	2018	\$ —	\$ —	\$ —	\$ —
Li Li, Chief Operating Officer <sup>(4)</sup>	2020	\$ 150,594	\$ —	\$ —	\$ 150,594
	2019	\$ —	\$ —	\$ —	\$ —
	2018	\$ —	\$ —	\$ —	\$ —

(1) Appointed Chairman effective as of December 9, 2017 and President effective from December 9, 2017 to August 19, 2020.

(2) Appointed Chief Executive Officer effective as of December 9, 2017.

(3) Appointed Acting Chief Financial Officer effective as of November 1, 2019.

(4) Appointed Chief Operating Officer effective as of June 2019.

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. Our 2017 Plan was automatically terminated upon the 2020 Plan's taking effect.

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. Our 2019 Plan was automatically terminated upon the 2020 Plan's taking effect.

On April 3, 2020, our annual meeting of shareholders approved the 2020 Equity Incentive Plan (the "2020 Plan"). All of our employees, officers, and directors, and consultants are eligible to be granted options, restricted stock awards, stock unit awards, or stock appreciate rights (each, an "Award") under the 2020 Plan. The 2020 Plan is currently administered by the Board, which has all the power to administer the 2020 Plan according to its terms, including the power to grant Awards, determine who may be granted Awards and the types and amounts of Awards to be granted, prescribe Award agreements, and establish programs for granting Awards. Awards may be made under the 2020 Plan for up to 11,011,663 of our common shares. 1,119,750 restricted shares have been granted under the 2020 Plan as of today.

The 2020 Plan is a stock-based compensation plan that provides for discretionary grants of, among others, stock options, stock awards and stock unit awards to employees, directors and consultants of the Company. The purpose of the 2020 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 following is a summary of the 2020 Plan and is qualified by the full text of the 2020 Plan.

*Administration.* The 2020 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 2020 Plan as the “Committee”).

*Number of Shares of Common Shares.* The number of common shares that may be issued under the 2020 Plan is 11,011,663. Shares issuable under the 2020 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 2020 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 2020 Plan. The number of common shares issuable under the 2020 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 2020 Plan. No award granted under the 2020 Plan may be transferred, except by will, the laws of descent and distribution.

*Eligibility.* All employees, directors, and consultants of the Company are eligible to receive awards under the 2020 Plan.

*Awards to Participants.* The Plan provides for discretionary awards of, among others, stock options, stock awards, stock unit awards and stock appreciation rights to participants. Each award made under the 2020 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 2020 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 an Employee may receive Stock Options and Stock Appreciation Rights in any calendar year is 800,000, except that the aggregate maximum number of shares as to which an Employee may receive Stock Options and Stock Appreciation Rights in the calendar year in which such Employee begins employment with the Company or its Subsidiaries is 1,000,000.

*Stock Awards.* The Committee has the discretion to grant stock awards to participants. Shares granted under the 2020 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 employee in any calendar year is 800,000 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.

*Stock Unit Awards.* The Committee may, in its discretion, grant stock unit awards to any participant. Each stock unit subject to the Award shall entitle the participant to receive, on the date or the occurrence of an event (including the attainment of performance goals) as described in the stock unit award agreement, 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.

*Stock Appreciation Rights or SAR.* 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. Cash shall be delivered in lieu of any fractional Shares. The terms and conditions of any such Award shall be determined at the time of grant.

*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 2020 Plan; Term of the 2020 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 2020 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 2020 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 2020 Plan on or after the tenth anniversary of the effective date of the 2020 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. This employment agreement was automatically terminated upon Mr. Yang's resignation in August 2020. The Company has paid Mr. Yang 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 employment agreement.

### *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.

### *Rui Yang Employment Agreement*

On November 1, 2019, we entered into an employment agreement with Rui Yang pursuant to which she agreed to serve as our Acting Chief Financial Officer. The agreement provides for an annual salary of RMB420,000 (a total of approximately USD60,000) payable in accordance with the Company's ordinary payroll practices. Under the terms of the agreement, commencing with the year ended June 30, 2020, Ms. 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; 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 October 2024, 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), Rui Yang 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. Rui Yang 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.

### *Li Li Employment Agreement*

On June 2019, we entered into an employment agreement with Li Li pursuant to which he agreed to serve as our Chief Operating Officer. The agreement provides an annual salary of RMB 360,000 and HK\$273,600 (approximately US\$85,200) and 12,000 shares of common stock to be granted in June 2020. Under the terms of the agreement, commencing with the year ended June 30, 2019, Li Li 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 June 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), Li Li 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. Li Li 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.

## **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 2021.

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 Zhao Hui Feng, 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 Zhao Hui Feng, 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 Zhao Hui Feng, 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 Zhao Hui Feng, Jin He Shao, and Kee Chong Seng, with Mr. Feng 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.

	<b>2018</b>	<b>2019</b>	<b>2020</b>
Number of Employees	1,655	2,085	2,746

#### **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 16,093,248 common shares outstanding as of October 15, 2020. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o CLPS Incorporation, c/o Unit 702, 7th Floor, Millennium City II, 378 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong SAR.

<b>Name of Beneficial Owner</b>	<b>Common Shares</b>	<b>Ownership% (1)</b>
Xiao Feng Yang (2)(7)	5,343,773	33.21%
Raymond Ming Hui Lin (3)(6)(7)	5,664,595	35.24%
Rui Yang (4)(6)	67,793	*
Li Li(6)(8)	136,178	*
Jin He Shao (5)(7)	3,000	*
<b>All directors and executive officers as a group (6 persons)</b>	<b>11,215,339</b>	<b>69.69%</b>
Qinrui Ltd. (2)	4,976,000	30.92%
Qinhui Ltd. (3)	4,999,996	31.07%
<b>5% or greater beneficial owners as a group</b>	<b>9,975,996</b>	<b>61.99%</b>

\* 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. Represents vested portion of the restricted stock granted dated as of May 6, 2020. The total grant of 250,000 common shares vests in whole immediately on the grant date of award.
- (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. Represents vested portion of the restricted stock granted dated as of May 6, 2020. The total grant of 250,000 common shares vests in whole immediately on the grant date of award.
- (4) Represents 17,793 shares, which she purchased prior to the Company's IPO, and the vested portion of the restricted stock granted dated as of May 6, 2020. The total grant of 50,000 common shares vests in whole immediately on the grant date of award.
- (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.
- (8) Represents 24,178 shares of the Company's common stock owning by his wife prior to his joining the Company and the vested portion of the restricted stock granted dated as of June 11, 2019. The total grant of 12,000 common shares vests in one year after the date of award. Represents vested portion of the restricted stock granted dated as of May 6, 2020. The total grant of 100,000 common shares vests in whole immediately on the grant date of award.

As of October 15, 2020, there were 12 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:**

- (a) Related party balances

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

	<b>As of June 30,</b>	
	<b>2020</b>	<b>2019</b>
Due from related parties:		
Judge Asia	\$ -	\$ 212,736
Mr. Raymond Ming Hui Lin	169,185	17,804
<b>Total</b>	<b>\$ 169,185</b>	<b>\$ 230,540</b>

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.

(b) Related party transactions

	For the year ended,		
	2020	2019	2018
<b>a) Consulting services provided to the related parties</b>			
CareerWin Executive Search Co., Ltd (“CareerWin”)	\$ 165,161	\$ -	\$ -
<b>b) Consulting services provided by the related parties</b>			
CareerWin	\$ 195,817	\$ -	\$ -
EMIT	196,422	-	-
Beijing Bright Technology Co., Ltd (“Beijing Bright”)	114,052	-	-
	\$ 506,291	\$ -	\$ -
<b>c) Purchase of software from the related parties</b>			
Beijing Bright	\$ 50,988	\$ -	\$ -
EMIT	12,896	-	-
	\$ 63,884	\$ -	\$ -
<b>d) Loans provided to the related parties</b>			
CLPS Lihong	\$ 149,341	\$ 820,982	\$ -
EMIT	28,446	-	-
	\$ 177,787	\$ 820,982	\$ -
<b>e) Repayment of loans from the related parties</b>			
CLPS Lihong	\$ 149,341	\$ 820,982	\$ -
EMIT	28,446	-	-
	\$ 177,787	\$ 820,982	\$ -
<b>f) Interest income received from the related party</b>			
CLPS Lihong	\$ 2,328	\$ 33,096	\$ -

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 and December 17, 2019.

Srustijeet Mishra, the non-controlling interest shareholder of Ridik Pte provided guarantee to a credit facility up to \$86,071 (SGD 120,000) entered by the Company with Development Bank of Singapore on April 20, 2018.

**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, 2020, 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 15, 2020 was \$3.09 per share.

	Shares	
	High	Low
<b>Monthly Highs and Lows</b>		
June 2020	\$ 3.75	\$ 1.83
July 2020	\$ 3.69	\$ 2.15
August 2020	\$ 4.71	\$ 2.40
September 2020	\$ 3.90	\$ 2.54

**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 non-resident 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 Unit 702, 7th Floor, Millennium City II, 378 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong SAR. 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 appreciated by 2.4% in fiscal 2018, depreciated by 3.7% in fiscal 2019 and depreciated by 2.9% in fiscal 2020, 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 Acting 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 Acting Chief Financial Officer, has concluded as of June 30, 2020, our disclosure controls and procedures were 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 Acting Chief Financial Officer, to allow timely decisions regarding required disclosure.

#### *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 Acting 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 June 30, 2020. 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.

It is possible that, had we performed a formal assessment of our internal control over financial reporting or had our independent registered public accounting firm perform an audit of our internal control over financial reporting, internal control deficiencies may have been identified. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If we fail to maintain an effective system of internal control over financial reporting, our ability to accurately and timely report our financial results or prevent fraud may be adversely affected, and investor confidence and the market price of our shares may be adversely impacted.”

### ***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.

To remediate our identified material weakness and improve our internal control over financial reporting, we have implemented a number of measures to address the material weakness. These measures include the following:

- We have hired additional qualified accounting and financial reporting personal with U.S. GAAP and SEC reporting experience to strengthen our financial reporting capability;
- We have sent our accounting and financial reporting personnel to continuous training and education in the accounting and reporting requirements under U.S. GAAP, and SEC rules and regulations;
- We have developed, communicated and implemented an accounting policy manual for its accounting and financial reporting personnel for recurring transactions and period-end closing processes;
- We have established 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

As of June 30, 2020, based on an assessment performed by our management on the performance of the remediation measures described above, we determined that the material weakness previously identified in our internal control over financial reporting had been remediated.

Other than as described above, there were no changes in our internal control over financial reporting during the year ended June 30, 2020, 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:

	<b>June 30, 2019</b>	<b>June 30, 2018</b>
	<b>USD'000</b>	<b>USD'000</b>
Audit Fees	\$ 240	\$ 170
Audit Related Fees	73	125
Tax Fees	-	-
All Other Fees	-	-
<b>Total Fees</b>	<b>\$ 313</b>	<b>\$ 295</b>

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:

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
	<b>USD'000</b>	<b>USD'000</b>
Audit Fees	\$ 341	\$ 323
Audit Related Fees	5	10
Tax Fees	-	-
All Other Fees	-	-
<b>Total Fees</b>	<b>\$ 346</b>	<b>\$ 333</b>

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 was made by us or our affiliates in 2020.

**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, 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 year ended June 30, 2018 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 the year ended June 30, 2018 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, 2020, 2019 AND 2018**

# CLPS INCORPORATION

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## 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 sheets of CLPS Incorporation (the “Company”) as of June 30, 2020 and 2019, the related consolidated statements of comprehensive income (loss), changes in shareholders’ equity and cash flows for each of the two years in the period ended June 30, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2020, 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 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/ Ernst & Young Hua Ming LLP

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

Shanghai, the People’s Republic of China

October 22, 2020

**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)

	<b>Note</b>	<b>As of June 30,</b>	
		<b>2020</b>	<b>2019</b>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		\$ 12,652,120	\$ 6,601,335
Short-term investments		636,934	1,791,697
Accounts receivable, net	4	25,753,856	19,263,584
Escrow receivable	5	-	200,000
Prepayments, deposits and other assets, net	6	1,280,967	1,028,154
Prepaid income tax		15,780	630,790
Amounts due from related parties	13	169,185	230,540
<b>Total Current Assets</b>		<b>\$ 40,508,842</b>	<b>\$ 29,746,100</b>
Property and equipment, net			
Property and equipment, net	7	452,472	566,591
Intangible assets, net	8	1,144,579	427,769
Goodwill	9	2,118,700	447,790
Long-term investments	10	680,131	914,006
Prepayments, deposits and other assets, net	6	244,387	222,507
Deferred tax assets, net	14	203,247	338,221
<b>Total Assets</b>		<b>\$ 45,352,358</b>	<b>\$ 32,662,984</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Short-term bank loans	11	\$ 2,161,239	\$ 2,184,996
Accounts payable and other current liabilities		489,043	196,832
Tax payables	14	1,426,614	915,629
Deferred subsidies		-	109,250
Deferred revenues		-	124,192
Contract liabilities		755,178	-
Salaries and benefits payable	12	11,522,268	7,735,487
<b>Total current liabilities</b>		<b>\$ 16,354,342</b>	<b>\$ 11,266,386</b>
Long-term bank loans			
Long-term bank loans	11	22,554	-
Deferred tax liabilities	14	163,163	-
Unrecognized tax benefits	14	194,939	-
<b>Total Liabilities</b>		<b>\$ 16,734,998</b>	<b>\$ 11,266,386</b>

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)

	<b>Note</b>	<b>As of June 30,</b>	
		<b>2020</b>	<b>2019</b>
<b>Commitments and Contingencies</b>	15		
<b>Shareholders' Equity</b>			
Common stock, \$0.0001 par value, 100,000,000 shares authorized; 15,930,330 shares issued and outstanding as of June 30, 2020; 13,913,201 shares issued and outstanding as of June 30, 2019*	19	1,593	1,391
Additional paid-in capital	19	28,586,048	24,276,622
Statutory reserves	19	2,803,811	1,833,802
Accumulated deficits		(2,680,143)	(4,509,729)
Accumulated other comprehensive loss		(1,362,665)	(813,650)
<b>Total CLPS Incorporation's Shareholders' Equity</b>		<b>27,348,644</b>	<b>20,788,436</b>
<b>Non-controlling Interests</b>	19	<b>1,268,716</b>	<b>608,162</b>
<b>Total Shareholders' Equity</b>		<b>28,617,360</b>	<b>21,396,598</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 45,352,358</b>	<b>\$ 32,662,984</b>

\* 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 INCOME (LOSS)**  
(Amounts in U.S. dollars (“\$”), except for number of shares)

	Note	For the years ended June 30,		
		2020	2019	2018
Revenues		\$ 89,415,798	\$ 64,932,937	\$ 48,938,593
Less: Cost of revenues		(58,296,097)	(41,178,356)	(31,277,255)
Gross profit		<u>31,119,701</u>	<u>23,754,581</u>	<u>17,661,338</u>
Operating expenses:				
Selling and marketing expenses		3,059,877	2,179,029	2,225,702
Research and development expenses		10,436,975	7,978,883	7,837,873
General and administrative expenses		16,343,936	17,384,393	5,871,622
Total operating expenses		<u>29,840,788</u>	<u>27,542,305</u>	<u>15,935,197</u>
Income (loss) from operations		1,278,913	(3,787,724)	1,726,141
Subsidies and other income, net		2,535,868	779,508	960,784
Other expenses		<u>(107,322)</u>	<u>(92,429)</u>	<u>(84,155)</u>
Income (loss) before income tax and share of income (loss) in equity investees		3,707,459	(3,100,645)	2,602,770
Provision (benefits) for income taxes	14	835,444	186,615	(112,128)
Income (loss) before share of income (loss) in equity investees		2,872,015	(3,287,260)	2,714,898
Share of income (loss) in equity investees, net of tax		207,363	(145,329)	-
Net income (loss)		3,079,378	(3,432,589)	2,714,898
Less: Net income (loss) attributable to non-controlling interest		141,139	(162,813)	280,435
<b>Net income (loss) attributable to CLPS Incorporation’s shareholders</b>		<u><b>\$ 2,938,239</b></u>	<u><b>\$ (3,269,776)</b></u>	<u><b>\$ 2,434,463</b></u>
Other comprehensive (loss) income				
Foreign currency translation (loss) gain		\$ (571,943)	\$ (429,348)	\$ 55,793
Less: foreign currency translation (loss) gain attributable to non-controlling interests		(22,928)	(17,375)	10,200
Other comprehensive (loss) gain attributable to CLPS Incorporation’s shareholders		<u>\$ (549,015)</u>	<u>\$ (411,973)</u>	<u>\$ 45,593</u>
Comprehensive income (loss) attributable to CLPS Incorporation shareholders		\$ 2,389,224	\$ (3,681,749)	\$ 2,480,056
Non-controlling interests		118,211	(180,188)	290,635
		<u>\$ 2,507,435</u>	<u>\$ (3,861,937)</u>	<u>\$ 2,770,691</u>
Basic earnings (loss) per common share*	16	<u>\$ 0.20</u>	<u>\$ (0.24)</u>	<u>\$ 0.21</u>
Weighted average number of share outstanding – basic		14,689,224	13,843,764	11,517,123
Diluted earnings (loss) per common share*	16	<u>\$ 0.20</u>	<u>\$ (0.24)</u>	<u>\$ 0.21</u>
Weighted average number of share outstanding – diluted		<u>14,692,299</u>	<u>13,843,764</u>	<u>11,636,367</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, 2020, 2019 AND 2018**  
(Amounts in U.S. dollars ("\$\$"), except for number of shares)

	Note	Common Share		Additional Paid-in Capital	Statutory Surplus	Accumulated Deficits	Accumulated Other Comprehensive Loss	Non- Controlling Interests	Total
		Shares*	Amount						
Balance at July 1, 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	18	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
Cumulative effect of adopting ASC 606	2	-	-	-	-	(138,644)	-	-	(138,644)
Purchase of subsidiaries' shares from non- controlling interests shareholders	19	100,000	10	(131,002)	-	-	-	130,992	-
Stock-based compensation expenses		-	-	4,004,080	-	-	-	-	4,004,080
Exercise of share options and vesting of restricted shares	18	1,830,514	183	(183)	-	-	-	-	-
Acquisition of subsidiaries	3	86,615	9	436,531	-	-	-	411,351	847,891
Net income for the year		-	-	-	-	2,938,239	-	141,139	3,079,378
Appropriation of statutory reserve		-	-	-	970,009	(970,009)	-	-	-
Foreign currency translation adjustments		-	-	-	-	-	(549,015)	(22,928)	(571,943)
Balance at June 30, 2020		<u>\$15,930,330</u>	<u>\$ 1,593</u>	<u>\$28,586,048</u>	<u>\$ 2,803,811</u>	<u>\$ (2,680,143)</u>	<u>\$ (1,362,665)</u>	<u>\$ 1,268,716</u>	<u>\$28,617,360</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 CASH FLOWS**  
(Amounts in U.S. dollars (“\$”), except for number of shares)

	<b>For the years ended June 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 3,079,378	\$ (3,432,589)	\$ 2,714,898
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Share-based compensation	4,004,080	7,016,089	-
Depreciation and amortization	593,173	403,700	206,169
Deferred tax expenses (benefits)	172,740	100,109	(208,051)
Remeasurement loss of the previously held equity interest	-	19,682	-
Gain on disposal of a long-term investment	(433,490)	-	-
Share of (income) loss in equity investees, net of tax	(207,363)	145,329	8,684
Gain on disposal of subsidiaries	-	(57,588)	-
Provision (reversal of) for doubtful accounts	231,133	(70,893)	96,904
Loss from disposal of property and equipment	633	9,689	1,957
Changes in assets and liabilities:			
Accounts receivable	(6,603,589)	(3,055,040)	(9,753,685)
Prepayment, deposits and other assets	206,054	(37,026)	(613,277)
Prepaid income tax	615,010	(442,498)	(33,225)
Accounts payable and other current liabilities	146,362	(842,910)	592,477
Contract liabilities	69,278	-	-
Tax payables	408,007	102,408	251,627
Deferred subsidies	(109,250)	(27,138)	11,945
Deferred revenue	-	(69,241)	102,077
Salaries and benefits payable	3,564,029	639,024	1,848,890
Unrecognized tax benefits	194,939	-	-
Net cash provided by (used in) operating activities	<u>5,931,124</u>	<u>401,107</u>	<u>(4,772,610)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of property and equipment	(167,701)	(499,554)	(231,226)
Acquisition of intangible assets	(63,855)	-	-
Payments for business acquisitions	(2,031,563)	(487,061)	(107,654)
Cash acquired from acquisitions	474,653	85,999	-
Acquisition of long-term investments	(143,299)	(1,093,274)	(153,792)
Disposition of a long-term investment	995,605	-	-
Disposition of subsidiaries	-	(65,242)	-
Maturities (purchases) of short-term investments	1,109,389	(1,803,228)	-
Repayments from a related party	177,787	820,982	-
Loans provided to a related party	(177,787)	(820,982)	-
Net cash provided by (used in) investing activities	<u>173,229</u>	<u>(3,862,360)</u>	<u>(492,672)</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)

	<b>For the years ended June 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from short-term bank loans	3,821,602	3,641,661	5,659,536
Repayments of short-term bank loans	(3,896,240)	(3,918,427)	(3,060,456)
Capital contributions from IPO and over-allotment, net	-	1,472,592	11,022,111
Escrow receivable	200,000	-	(200,000)
Due from underwriters on the over-allotment	-	-	(1,472,592)
Cash paid for issuance cost of IPO	-	-	(283,092)
Purchase of non-controlling interests	-	(582,440)	-
Amounts due from related parties	-	-	(12,941)
Amounts due to related parties	-	(146,604)	(936,338)
Dividend paid	-	-	(612,988)
<b>Net cash provided by financing activities</b>	<b>125,362</b>	<b>466,782</b>	<b>10,103,240</b>
<b>Effect of exchange rate changes on cash</b>	<b>(178,930)</b>	<b>(147,080)</b>	<b>90,360</b>
<b>Net increase (decrease) in cash</b>	<b>6,050,785</b>	<b>(3,141,551)</b>	<b>4,928,318</b>
Cash and cash equivalents, at the beginning of the year	\$ 6,601,335	\$ 9,742,886	\$ 4,814,568
<b>Cash, cash equivalents at the end of the year</b>	<b>\$ 12,652,120</b>	<b>\$ 6,601,335</b>	<b>\$ 9,742,886</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Income tax paid	\$ 1,169,717	\$ 768,956	\$ 325,609
Interest paid	\$ 89,503	\$ 69,602	\$ 74,754
<b>NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES:</b>			
Payable for business acquisition and purchase of non-controlling interests	\$ -	\$ -	\$ 584,040
Payable for a long-term investment	\$ -	\$ -	\$ 151,539
Capital contribution from non-controlling shareholders	\$ -	\$ -	\$ 70
Prepaid for issuance costs of IPO in the previous year	\$ -	\$ -	\$ 79,833

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, 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 Ridik Technology (Australia) Pty Ltd. (“CLPS Ridik 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
Qiner Co., Limited (“Qiner”)	Incorporated on April 21, 2017	Hong Kong, China	100%	Holding Company
Qinheng Co., Limited (“Qinheng”)	Incorporated on June 9, 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-Ridik Technology (Australia) Pty Ltd. (formerly CLPS Technology (Australia) Pty Ltd.) (“CLPS-Ridik 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	100%	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	100%	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%	Software development
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%	Network technology
CLPS Hangzhou Co. Ltd. (“CLPS Hangzhou”)	Incorporated on July 31, 2019	Hangzhou, China	100%	Software development
CLPS Technology Japan (“CLPS Japan”)	Incorporated on September 13, 2019	Japan	100%	Software development
Ridik Pte. Ltd. (“Ridik Pte.”)	Acquired on September 26, 2019	Singapore	80%	Software development
Ridik Sdn. Bhd. (“Ridik Sdn.”)	Acquired on September 26, 2019	Malaysia	80%	Software development
Ridik Software Solutions Pte. Ltd. (“Ridik Software Pte.”)	Acquired on September 26, 2019	Singapore	80%	Software development
Ridik Software Solutions Ltd. (“Ridik Software”)	Acquired on September 26, 2019	UK	80%	Software development
Suzhou Ridik Information Technology Co., Ltd. (“Suzhou Ridik”)	Incorporated on October 18, 2019	Suzhou, China	80%	Software development
Qinson Credit Card Services Limited (“Qinson”)	Incorporated on December 31, 2019	Hong Kong, China	100%	Software development
CLPS Technology (California) Inc. (“CLPS California”)	Incorporated on January 2, 2020	California, USA	100%	Software development
Ridik Consulting Private Limited (“Ridik Consulting”)	Acquired on January 6, 2020	India	80%	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, relative standalone selling price of the performance obligations in the IT solution services, provision for accrued expenses and other current liabilities, valuation allowance of deferred tax assets, provision for uncertain tax positions, fair value measurements of equity investments without readily determinable fair values 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 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’s long-term investments consist of equity-method investments and equity investments without readily determinable fair values.

Investments in entities in which the Company can exercise significant influence but does not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC Topic 323, *Investments-Equity Method and Joint Ventures* (“ASC 323”). The share of earnings or losses of the investee are recognized in the consolidated statements of comprehensive income. Equity method adjustments include the Company’s proportionate share of investee income or loss, adjustments to recognize certain differences between the Company’s carrying value and its equity in net assets of the investee at the date of investment, impairments, and other adjustments required by the equity method. The Company assesses its equity investment for other-than-temporary impairment by considering factors as well as all relevant and available information including, but not limited to, current economic and market conditions, the operating performance of the investees including current earnings trends, the general market conditions in the investee’s industry or geographic area, factors related to the investee’s ability to remain in business, such as the investee’s liquidity, debt ratios, and cash burn rate and other company-specific information. Any gain or loss from the disposition of the equity method investments is included in the consolidated statements of comprehensive income equal to difference between the proceeds the Company receives and the carrying amounts of the investment disposed.

For equity investments without readily determinable fair values, the Company elects to use the measurement alternative in accordance with ASC Topic 321, *Investments-Equity securities* (“ASC 321”) to measure such investments at cost minus impairment adjusted by observable price changes in orderly transactions for the identical or a similar investment of the same issuer as of the date that the observable transaction occurred. These investments are measured at fair value on a nonrecurring basis when there are events or changes in circumstances that may have a significant adverse effect. An impairment loss is recognized in the consolidated statements of comprehensive income equal to the amount by which the carrying value exceeds the fair value of the investment. For the year ended June 30, 2020, no such investment was remeasured and accordingly no unrealized gains (losses) was recognized.

No impairment loss was recognized in any of the periods presented.

**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 Company adopted Accounting Standards Update (“ASU”) No. 2017-01, *Business Combinations (Topic 802): Clarifying the Definition of a Business*, in determining whether it has acquired a business from July 1, 2019 on a prospective basis and there was no material impact on the consolidated financial statements.

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 over the estimated useful lives of the assets, as follows:

	<b>Useful life</b>
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).

Direct costs that are related to the construction of property and equipment and incurred in connection with bringing the assets to their intended use are capitalized as construction in progress. Construction in progress is transferred to specific property and equipment, and the depreciation of these assets commences when the assets are ready for their intended use.

**Intangible assets, net**

Intangible assets, net, 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:

	<b>Useful life</b>
Customer contracts	3 – 10 years
Customer relationship	3 – 10 years
Software	5 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. 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, 2020 and 2019. Goodwill was allocated 100% to the single reporting unit as of June 30, 2020 and 2019. 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, 2020, 2019 and 2018.

**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, 2020, 2019 and 2018.

**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**

Effective July 1, 2019, the Company adopted ASU 2014-09, *Revenue from contracts with Customers (Topic 606)* (“ASC 606”) using the modified retrospective approach, which requires the recognition of a cumulative-effect adjustment to retained earnings as of the date of adoption and applies the adoption only to contracts not completed as of July 1, 2019. Prior periods were not retrospectively adjusted. The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

The Company provides a comprehensive range of IT services and solutions, which primarily are on a time-and-expense basis, or fixed-price basis. Commencing on July 1, 2019, revenue is recognized when control of promised goods or services is transferred to the Company’s customers in an amount of consideration to which an entity expects to be entitled to in exchange for those services.

The cumulative effect of initially applying the new revenue standard resulted in a decrease to opening retained earnings of \$138,644, with the impact primarily related to the Company’s customized IT solution services. Under ASC 605, the IT solution services were recognized using the percentage of completion method of accounting; while under ASC 606, the IT solution services are recognized at a point in time when the control of service is obtained by the customer represented by the customer acceptance received by the Company. Whereas the Company has the enforceable right to payment for performance completed to date, revenue is recognized over time, using the output method.

The effect of the adoption of ASC 606 as of June 30, 2019 was as follows:

	<b>As of June 30, 2019</b>		
	<b>As previously reported</b>	<b>Balances under ASC 606</b>	<b>Effect of change higher/(lower)</b>
<b>Consolidated balance sheet</b>			
<b>Current assets</b>			
Prepayments, deposits and other assets, net	\$ 1,028,154	\$ 1,405,004	\$ 376,850
<b>Non-current assets</b>			
Deferred tax assets, net	\$ 338,221	\$ 384,435	\$ 46,214
<b>Current liabilities</b>			
Deferred revenues	\$ 124,192	\$ -	\$ (124,192)
Contract liabilities	\$ -	\$ 685,900	\$ 685,900
<b>Shareholders’ equity</b>			
Accumulated deficits	\$ (4,509,729)	\$ (4,648,373)	\$ (138,644)

The effect of the adoption of ASC 606 for the current year was as follows:

	<b>Year ended June 30, 2020</b>		
	<b>Balances under ASC 606 (As reported)</b>	<b>Balances under ASC 605</b>	<b>Effect of change higher/(lower)</b>
<b>Consolidated statement of comprehensive income</b>			
Revenues	\$ 89,415,798	\$ 88,986,532	\$ 429,266
Cost of revenues	\$ (58,296,097)	\$ (57,937,842)	\$ (358,255)
Income (loss) before income tax and share of income (loss) in equity investees	\$ 3,707,459	\$ 3,636,448	\$ 71,011
Provision (benefits) for income taxes	\$ 835,444	\$ 824,792	\$ 10,652
Income (loss) before share of income (loss) in equity investees	\$ 2,872,015	\$ 2,811,656	\$ 60,359
Net income (loss)	\$ 3,079,378	\$ 3,019,019	\$ 60,359
Net income (loss) attributable to CLPS Incorporation’s shareholders	\$ 2,938,239	\$ 2,877,880	\$ 60,359
Basic earnings per common share	\$ 0.20	\$ 0.20	\$ -
Diluted earnings per common share	\$ 0.20	\$ 0.20	\$ -

**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)**

	<b>As of June 30, 2020</b>		
	<b>Balances under ASC 606 (As reported)</b>	<b>Balances under ASC 605</b>	<b>Effect of change higher/(lower)</b>
<b>Consolidated balance sheet</b>			
<b>Current assets</b>			
Prepayments, deposits and other assets, net	\$ 1,280,967	\$ 1,235,174	\$ 45,793
<b>Non-current Assets</b>			
Deferred tax assets	\$ 203,247	\$ 167,685	\$ 35,562
<b>Current liabilities</b>			
Deferred revenue	\$ -	\$ 595,538	\$ (595,538)
Contract liabilities	\$ 755,178	\$ -	\$ 755,178
<b>Shareholders’ equity</b>			
Accumulated deficits	\$ (2,680,143)	\$ (2,601,858)	\$ (78,285)

The Company’s revenue recognition policies effective on the adoption date of ASC 606 are as follows:

*Time-and-expense basis contracts*

Prior to the adoption of ASC 606, revenues is considered realizable and earned in accordance with ASC 605 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. Accordingly, revenues from time-and-expense basis contracts are recognized as the related services are rendered assuming all other basic revenue recognition criteria are met. The Company is reimbursed for actual hours incurred at pre-agreed negotiated hourly billing rates. Customers 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. Under ASC 606, the series of IT services are substantially the same from day to day, and each day of the service is considered to be distinct and separately identifiable as it benefits the customer daily. Further, the uncertainty related to the service consideration is resolved on a daily basis as the Company satisfies its obligation to perform IT service daily with enforceable right to payment for performance completed to date. Thus, revenue is recognized as service is performed and the customer simultaneously receives and consumes the benefits from the service daily.

*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)**

Prior to the adoption of ASC 606, the Company recognizes revenue proportionally over the term of the contract in accordance with ASC 605. 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. Under ASC 606, there are two performance obligations identified in the fixed-price basis contracts: the delivery of customized IT solution service and the completion of the PCS. The transaction price is allocated between the two performance obligations based on the relative standalone selling price, estimated using the cost plus method.

The Company recognizes revenue for the delivery of customized IT solution service at a point in time when the system is implemented and accepted by the customer. Where the Company has enforceable right to payment for performance completed to date, revenue is recognized over time, using the output method. Revenue for PCS is recognized ratably over time as the customer simultaneously receive and consume the benefits throughout the PCS period.

Differences between the timing of billings and the recognition of revenues are recorded as contract assets which is included in the prepayments, deposits and other assets, net, or contract liabilities on the consolidated balance sheets. Contract assets are classified as current assets and the full balance is reclassified to accounts receivables when the right to payment becomes unconditional.

The opening and closing balances of contract assets arising from contracts with customers as of June 30, 2020 were nil and \$233,149, respectively, and the opening and closing balances of deferred contract costs arising from contracts with customers as of June 30, 2020 were \$477,359 and \$106,734. The opening and closing balances of contract liabilities arising from contracts with customers as of June 30, 2020 were \$685,900 and \$755,178, respectively. Revenue recognized in the year ended June 30, 2020 that was included in the contract liability balance at the beginning of the period was \$631,851. This revenue was driven primarily by IT solution service performance obligations being satisfied.

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 are 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 are 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 also 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**  
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(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, 2020, 2019 and 2018. 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 2024, and the examination period was extended to 10 years for entities qualified as High and New Technology Enterprises (“HNTEs”) in 2018 and thereafter.

**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 was 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.

A change in any of the terms or conditions of share-based payment awards is accounted for as a modification of awards. The Company measures the incremental compensation cost of a modification as the excess of the fair value of the modified awards over the fair value of the original awards immediately before its terms are modified, based on the share price and other pertinent factors at the modification date. For vested awards, the Company recognizes incremental compensation cost in the period the modification occurred. For unvested awards, the Company recognizes, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

**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 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board 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, escrow receivable, amounts due from related parties, equity investments without readily determinable fair values, accounts payable and other current liabilities, short-term bank loans and long-term bank loans. The carrying amounts of these financial instruments, except for short-term investments, equity investments without readily determinable fair values and long-term bank loans approximate their fair values because of their generally short maturities.

The fair value of the Company’s trading 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 carrying amount of long-term bank loans approximates its fair value due to the fact that the related interest rates approximate market rates for similar debt instruments of comparable maturities.

The Company measures equity investments without readily determinable fair values and elected to use the measurement alternative at fair value on a nonrecurring basis, in the cases of an impairment charge is recognized, fair value of an investment is remeasured in an acquisition/a disposal, and an orderly transaction for identical or similar investments of the same issuer is identified. The non-recurring fair value measurements to the carrying amount of an investment usually requires management to estimate a price adjustment for the different rights and obligations between a similar instrument of the same issuer with an observable price change in an orderly transaction and the investment held by the Company. The valuation methodologies involved require management to use the observable transaction price at the transaction date and other unobservable inputs (level 3) such as volatility of comparable companies and probability of exit events as it relates to liquidation and redemption preferences.

<b>Fair Value Measurements as of</b>			
<b>June 30, 2020</b>			
	<b>Quoted Price in Active Market for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Unobservable inputs (Level 3)</b>
<i><u>Fair value measurements</u></i>			
<i><u>Recurring</u></i>			
Short-term investments			
Trading securities	\$ -	\$ 636,934	\$ -

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

**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)**

For the year ended June 30, 2020, the Company recognized nil gain or loss for the equity investments using the measurement alternative. As of June 30, 2019, the Company had no financial assets and liabilities measured and recorded at fair value on a non-recurring basis.

**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 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. Remittances in currencies other than RMB by the Company in China must be processed through the People’s Bank of China (“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 appreciated by 2.4% in fiscal 2018, depreciated by 3.7% in fiscal 2019 and depreciated by 2.9% in fiscal 2020, 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, the majority of the Company’s assets, liabilities, revenues and costs are denominated in RMB.

**CLPS INCORPORATION**  
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(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.

- Concentration of credit risk

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, escrow receivable, note receivables, amounts due from related parties and equity investments without readily determined fair values. As of June 30, 2020 and 2019, \$11,027,764 and \$1,891,584 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, 2020, the Company and its subsidiaries had \$11,027,764, \$940,854, \$8,350, \$516,816, \$1,496, \$58,789 and \$98,051 of cash and cash equivalents on deposit at financial institutions in mainland China, Singapore, Australia, Hong Kong, India, Malaysia and Japan, 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, 2020, 2019 and 2018, one customer with its affiliates accounted for 21.5%, 25.7% and 30.8% of the Company’s total revenues, respectively. For the years ended June 30, 2020 and 2019, one customer and its affiliates accounted for 30.1% and 30.0% 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 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*). In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities, which amended the effective date of Topic 842, Leases*. The updated guidance is effective for the Company’s annual reporting period ending June 30, 2022 and interim periods during the year ending June 30, 2023. 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.

**CLPS INCORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Recent accounting pronouncements (continued)**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, or ASU 2016-13*. 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. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which clarifies that receivables arising from operating leases should be accounted for in accordance with ASC 842, *Leases (“ASC 842”)* instead of ASC Subtopic 326-20. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which amended the effective date of ASU 2016-13. The amendments in these ASUs are effective for the Company’s annual reporting period ending June 30, 2023 and interim periods during the year ending June 30, 2023. Early adoption is permitted. The Company does not expect to early adopt this guidance and is in the process of evaluating the impact of adoption of this guidance on the Company’s consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, as part of its Simplification Initiative to reduce the cost and complexity in accounting for income taxes. This standard removes certain exceptions related to the approach for intra period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. It also amends other aspects of the guidance to help simplify and promote consistent application of GAAP. ASU 2019-12 is effective for the Company’s annual reporting period ending June 30, 2022 and interim periods during the year ending June 30, 2023. The Company does not expect to early adopt this guidance and is in the process of evaluating the impact of adoption of this guidance on the Company’s consolidated financial statements.

**CLPS INCORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Recent accounting pronouncements (continued)**

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 does not expect to early adopt this guidance and is in the process of evaluating the impact of adoption of this guidance 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 does not expect the adoption will have material impact on the consolidation financial statements.

In January 2020, the FASB issued ASU No. 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. The amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The amendments also clarify that for the purpose of applying paragraph 815-10-15-141(a) an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in paragraph 815-10-15-141 to determine the accounting for those forward contracts and purchased options. The amendments are effective for fiscal years beginning July 1, 2022, and interim periods within those fiscal years. The Company does not expect to early adopt this guidance and 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 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:

	<b>Amounts</b>
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	\$ 219,272

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.

***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:

	<b>Amounts</b>
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	\$ 420,101

**CLPS INCORPORATION**  
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**NOTE 3 – BUSINESS ACQUISITION - continued**

***Acquisition of Infogain (continued)***

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.

***Acquisition of Ridik Pte. and Ridik Consulting***

On September 26, 2019, Qiner acquired an 80% equity interest in Ridik Pte. Ltd. (“Ridik Pte.”) located in Singapore from third-party selling shareholders with the final purchase price of \$2,462,580 (3,402,304 Singapore dollars), in the form of cash of \$2,026,043 (2,799,180 Singapore dollars) and the Company’s common shares valued at \$436,537 (603,123 Singapore dollars), respectively. Ridik Sdn. Bhd. (“Ridik Sdn.”), Ridik Software Solutions Pte. Ltd. (“Ridik Software Pte.”) and Ridik Software Solutions Ltd. (“Ridik Software”) are all subsidiaries of Ridik Pte.

The transactions were accounted for as business combinations using the purchase method of accounting. The purchase price allocations of the transactions were 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 dates. The most significant variables in the valuation are discount rates, 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:

	<b>Amounts</b>
Cash acquired	\$ 474,323
Accounts receivable, net	618,144
Prepayments, deposits and other assets, net	103,697
Property and equipment, net	1,493
Customer relationship	904,748
Short-term bank loans	(48,103)
Accounts payable and other current liabilities	(128,688)
Tax payables	(102,978)
Salaries and benefits payable	(431,548)
Long-term bank loans	(44,201)
Deferred tax liabilities	(162,855)
Non-controlling interests	(411,351)
Goodwill	1,689,899
Total consideration	\$ 2,462,580

Identifiable intangible assets acquired included customer relationship, which was valued using an income approach and determined to carry estimated remaining useful life of approximately ten years.

On January 6, 2020, Ridik Pte. acquired 100% equity interest in Ridik Consulting Private Limited (“Ridik Consulting”) from third-party selling shareholders with the final purchase price of \$5,520 (396,700 Indian Rupees). The fair value of the net liabilities acquired was \$3,839 (275,800 Indian Rupees) and goodwill was recognized at \$9,359 (672,500 Indian Rupees).

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

Pro forma financial information of Ridik Pte. and Ridik Consulting are not presented as the effects of the acquisition on the Company’s consolidated financial statements were not material.

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**NOTE 4 – ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net consisted of the following:

	<b>As of June 30,</b>	
	<b>2020</b>	<b>2019</b>
Trade accounts receivable	\$ 25,850,996	\$ 19,345,329
Less: allowance for doubtful accounts	(97,140)	(81,745)
<b>Accounts receivable, net</b>	<b>\$ 25,753,856</b>	<b>\$ 19,263,584</b>

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

	<b>As of June 30,</b>	
	<b>2020</b>	<b>2019</b>
Balance at the beginning of the year	\$ 81,745	\$ 151,347
Provision for (reversal of) doubtful accounts	17,711	(65,076)
Foreign currency translation adjustments	(2,316)	(4,526)
<b>Balance at the end of the year</b>	<b>\$ 97,140</b>	<b>\$ 81,745</b>

**NOTE 5 – ESCROW RECEIVABLE**

As of June 30, 2019, the Company placed \$200,000 in an escrow account in connection with the Company’s indemnification as part of its IPO raise. The escrow receivable was collected on February 10, 2020.

**NOTE 6 – PREPAYMENTS, DEPOSITS AND OTHER ASSETS, NET**

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

	<b>As of June 30,</b>	
	<b>2020</b>	<b>2019</b>
Advances and deposits to suppliers	\$ 633,706	\$ 596,437
Contract assets	233,149	-
Prepaid expenses	388,010	280,290
Due from Judge Asia	212,447	-
Deferred contract costs	106,734	-
Note receivables	110,744	60,842
Advances to employees	53,011	164,910
Unbilled receivables	-	148,329
Less: allowance for doubtful accounts	(212,447)	(147)
<b>Total</b>	<b>1,525,354</b>	<b>1,250,661</b>
Less: Long-term portion	(244,387)	(222,507)
<b>Prepayments, deposits and other assets – current portion</b>	<b>\$ 1,280,967</b>	<b>\$ 1,028,154</b>

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

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

	<b>As of June 30,</b>	
	<b>2020</b>	<b>2019</b>
Balance at the beginning of the year	\$ 147	\$ 6,149
Provision (reversal) for doubtful accounts	213,422	(5,817)
Write-off	(144)	-
Foreign currency translation adjustment	(978)	(185)
Balance at the end of the year	<u>\$ 212,447</u>	<u>\$ 147</u>

**NOTE 7 – PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consisted of the following:

	<b>As of June 30,</b>	
	<b>2020</b>	<b>2019</b>
Equipment	\$ 737,833	\$ 590,771
Office Furniture	130,026	126,279
Automobiles	78,206	80,486
Leasehold improvements	416,936	416,724
Construction in progress	73,672	-
Total	1,436,673	1,214,260
Less: accumulated depreciation	(984,201)	(647,669)
Property and equipment, net	<u>\$ 452,472</u>	<u>\$ 566,591</u>

Depreciation expense was \$360,302, \$239,349 and \$152,342 for the years ended June 30, 2020, 2019 and 2018, respectively. No impairment loss was recognized for the years ended June 30, 2020, 2019 and 2018.

**NOTE 8 – INTANGIBLE ASSETS, NET**

As of June 30, 2020, intangible assets, net consisted of the following:

	<b>As of June 30,</b>	
	<b>2020</b>	<b>2019</b>
Customer contracts	\$ 658,224	\$ 677,767
Customer relationship	896,572	-
Software	63,884	-
Less: accumulated amortization	(474,101)	(249,998)
Intangible assets, net	<u>\$ 1,144,579</u>	<u>\$ 427,769</u>

Customer contracts were derived from the acquisitions of Judge China during the year ended June 30, 2017 and Infogain during the year ended June 30, 2019, and the customer relationship was derived from the acquisition of Ridik Pte. during the year ended June 30, 2020 with an estimated useful life of 10, 3 and 10 years, respectively (Note 3).

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**NOTE 8 – INTANGIBLE ASSETS, NET - continued**

The movement of intangible assets, net is as follow:

	<b>For the year ended June 30, 2020</b>
Balance as of July 1, 2019	\$ 427,769
Addition	940,913
Amortization	(232,871)
Foreign currency translation adjustment	8,768
Balance as of June 30, 2020	<u>\$ 1,144,579</u>

The amortization expenses were \$232,871, \$164,351 and \$53,827 for the years ended June 30, 2020, 2019 and 2018. Estimated future amortization expenses are as follows:

<b>Year ending June 30,</b>	<b>Amortization expense</b>
2021	\$ 262,670
2022	151,973
2023	147,845
2024	102,434
2025	98,613
2026 and after	381,044
Total	<u>\$ 1,144,579</u>

No impairment losses were recognized for the years ended June 30, 2020, 2019 and 2018.

**NOTE 9 – GOODWILL**

The changes in the carrying amount of goodwill for the year ended June 30, 2020 were as follows:

	<b>For the year ended June 30, 2020</b>
Balance as of July 1, 2019	\$ 447,790
Goodwill arising from acquisition of Ridik Pte.(Note 3)	1,689,899
Goodwill arising from acquisition of Ridik Consulting (Note 3)	9,359
Foreign currency translation adjustment	(28,348)
Balance as of June 30, 2020	<u>\$ 2,118,700</u>

The Company has only one reporting unit. For the years ended June 30, 2020 and 2019, 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, 2020 and 2019, respectively.

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**NOTE 10 – LONG-TERM INVESTMENTS**

	<b>As of June 30,</b>	
	<b>2020</b>	<b>2019</b>
<i>Equity investments without readily determinable fair values</i>		
CLPS Lihong Financial Information Services Co., Ltd. (“CLPS Lihong”)	510,405	-
<i>Equity method investments</i>		
CLPS Lihong	-	844,643
Economic Modeling Information Technology Co., Ltd. (“EMIT”)	169,726	69,363
<b>Total</b>	<b>\$ 680,131</b>	<b>\$ 914,006</b>

a) 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 a loss of \$176,148 (RMB 1,201,523).

On April 29, 2020, the Company sold an 18.42% equity interest in CLPS Lihong with the carrying amount of \$535,119 (RMB 3,779,120) to a third-party investor for a cash consideration of \$995,605 (RMB 7 million) which was received as of June 30, 2020. The disposal gain of \$433,490 (RMB 3,047,824) was recorded in the consolidated statements of comprehensive income for the year ended June 30, 2020. Concurrently, on April 29, 2020, the Company’s remaining equity interest in CLPS Lihong was further diluted to 7% as CLPS Lihong raised additional capital from other third-party investors.

After the partial disposal, the carrying amount of long-term investment in CLPS Lihong was \$510,405 (RMB 3,606,065). As the Company no longer had significant influence over CLPS Lihong, it accounted for the investment in accordance with ASC 321 using the measurement alternative and elected to measure such equity investments without readily determinable fair values at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any.

For the period from July 1, 2019 to April 29, 2020, the Company’s share of CLPS Lihong’s results of operations was an income of \$250,290 (RMB 1,759,764) in accordance with ASC 323. For the period from April 30, 2020 to June 30, 2020, unrealized gains (upward adjustments) and losses (downward adjustments and impairment) under ASC 321 was nil as there was no such remeasurement for the equity investments without readily determinable fair values.

b) Investment in EMIT

On April 3, 2019, Qiner purchased a 30% equity interest of EMIT at nil consideration with a committed to invest \$445,454.14 (RMB 3,000,000.00) in total within 20 years. During the years ended June 30, 2020 and 2019, the Company made capital contribution to EMIT of \$143,299 (RMB 1,000,000.00) and \$73,593 (RMB 500,000.00), respectively. The Company accounts for the investment in EMIT as an equity method investment due to its significant influence over the entity. For the years ended June 30, 2020 and 2019, the Company’s share of EMIT’s results of operations was a loss of \$42,927 (RMB 301,878) and \$4,230 (RMB 28,853), respectively. As the end of June 30, 2020 and 2019, the committed but not yet made investment in EMIT was \$228,561 (RMB 1,500,000.00) and \$371,860 (RMB 2,500,000.00), respectively.

Selected financial information of the equity method investees are not presented as the effects were not material.

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**NOTE 11 – BANK LOANS**

Outstanding balances of short-term bank loans consisted of the following:

	As of June 30,	
	2020	2019
Loan from Bank of Communication	\$ 1,132,327	\$ 728,332
Loans from China Merchants Bank	990,785	1,456,664
Loans from Development Bank of Singapore	60,681	-
Total	\$ 2,183,793	\$ 2,184,996
Less: Long-term portion	(22,554)	-
Short term bank loans	\$ 2,161,239	\$ 2,184,996

Bank loans payable consisted of several bank loans denominated in RMB and Singapore dollars (“SGD”).

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 2018”) 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 2018 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 (RMB 10,000,000) which was repaid between August 9, 2019 and December 20, 2019.

On December 16, 2019, the Company entered into a revolving credit facility with China Merchants Bank (“CMB Credit Facility 2019”) which permits the Company to borrow up to approximately \$2,830,816 (RMB 20,000,000) for the period from December 16, 2019 to December 15, 2020 with an interest rate at 4.5% to 4.785% per annum. The CMB Credit Facility 2019 is guaranteed by the CEO, the wife of the CEO, Chairman, and the wife of Chairman of the Company as joint guarantors. Under the credit facility, the Company borrowed a total of \$2,689,275 (RMB 19,000,000) with an interest rate at 4.5% to 4.785% per annum which was repaid on April 21, 2020 and July 7, 2020.

On December 5, 2019, the Company entered into a credit facility with Bank of Communication which permits the Company to borrow up to \$707,704 (RMB 5,000,000). The Company borrowed \$707,704 (RMB 5,000,000) with an interest rate at 4.785% per annum on December 5, 2019 and repaid the loan on July 3, 2020.

On January 8, 2020, the Company entered into a credit facility with Bank of Communication which permits the Company to borrow up to \$424,622 (RMB 3,000,000). The Company borrowed \$424,622 (RMB 3,000,000) with an interest rate at 4.785% per annum on January 8, 2020 and repaid the loan on July 6, 2020.

On April 20, 2018, the Company entered into a credit facility with Development Bank of Singapore which permits the Company to borrow up to \$86,071 (SGD 120,000). The Company borrowed \$86,071 (SGD 120,000) with an interest rate at 7% per annum on April 20, 2018 which is repaid by installments from April 20, 2018 to April 19, 2021. The credit facility is guaranteed by Srustijeet Mishra, the non-controlling interest shareholder of Ridik Pte.

On February 11, 2019, the Company entered into a credit facility with Development Bank of Singapore which permits the Company to borrow up to \$50,208 (SGD 70,000). The Company borrowed \$50,208 (SGD 70,000) with an interest rate at 6.75% per annum on February 11, 2019 which shall be repaid by installments from 2019 to 2023. The Company repaid \$15,269 (SGD21,288) by the end of June 30, 2020. The amount of \$22,554 (SGD 31,445) due after June 30, 2021 was classified as “Long-term portion”.

Interest expenses were \$90,940, \$96,278 and \$82,507 for the years ended June 30, 2020, 2019 and 2018, respectively. The effective weighted average interest rates were 4.168%, 5.231% and 5.845% for the years ended June 30, 2020, 2019 and 2018, respectively.

**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 \$2,319,120 and \$1,856,456 accrued employer portion of social benefits payable to local governments as of June 30, 2020 and 2019, respectively.

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**NOTE 13 – RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. The related parties that had transactions or balances with the Company in 2020 and 2019 consisted of:

<u>Related Party</u>	<u>Relationship with the Company</u>
Judge Asia	Non-controlling interest shareholder of Judge China before November 9, 2019
Xiao Feng Yang	Chairman of the Board
Raymond Ming Hui Lin	CEO of the Company
EMIT	Equity investee of the Company
CareerWin Executive Search Co., Ltd (“CareerWin”)	Non-controlling interest shareholder of Judge HR
Ridik Technology Pte Ltd	Controlled by non-controlling interest shareholder of Ridik Pte.
Srustijeet Mishra	Non-controlling interest shareholder of Ridik Pte.
Beijing Bright Technology Co., Ltd (“Beijing Bright”)	Non-controlling interest shareholder of Judge China
CLPS Lihong	Equity investee of the Company

(a) Related party balances

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

	<u>As of June 30,</u>	
	<u>2020</u>	<u>2019</u>
Due from related parties:		
Judge Asia	\$ -	\$ 212,736
Raymond Ming Hui Lin	169,185	17,804
<b>Total</b>	<b>\$ 169,185</b>	<b>\$ 230,540</b>

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.

(b) Related party transactions

	<u>For the year ended,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>a) Consulting services provided to the related parties</b>			
CareerWin	\$ 165,161	\$ -	\$ -
<b>b) Consulting services provided by the related parties</b>			
CareerWin	\$ 195,817	\$ -	\$ -
EMIT	196,422	-	-
Beijing Bright	114,052	-	-
	<b>\$ 506,291</b>	<b>\$ -</b>	<b>\$ -</b>
<b>c) Purchase of software from the related parties</b>			
Beijing Bright	\$ 50,988	\$ -	\$ -
EMIT	12,896	-	-
	<b>\$ 63,884</b>	<b>\$ -</b>	<b>\$ -</b>
<b>d) Loans provided to the related parties</b>			
CLPS Lihong	\$ 149,341	\$ 820,982	\$ -
EMIT	28,446	-	-
	<b>\$ 177,787</b>	<b>\$ 820,982</b>	<b>\$ -</b>
<b>e) Repayment of loans from the related parties</b>			
CLPS Lihong	\$ 149,341	\$ 820,982	\$ -
EMIT	28,446	-	-
	<b>\$ 177,787</b>	<b>\$ 820,982</b>	<b>\$ -</b>
<b>f) Interest income received from the related party</b>			
CLPS Lihong	\$ 2,328	\$ 33,096	\$ -

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 and December 16, 2019. (Note 11)

Srustijeet Mishra, the non-controlling interest shareholder of Ridik Pte provided guarantee to a credit facility up to \$86,071 (SGD 120,000) entered by the Company with Development Bank of Singapore on April 20, 2018.

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**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, Qiner, Qinheng and Qinson were established in Hong Kong and are subject to Hong Kong profits tax of 16.5% on its activities conducted in Hong Kong. CLPS SG, Infogain, Ridik Pte. and Ridik Software Pte. are subject to Singapore income tax at the rate of 17%. CLPS Ridik AU was established in Australia. Australian enterprises are usually subject to a unified 30% enterprise income tax rate while CLPS Ridik AU is subject to corporate income tax at 27.5% as a small company in the fiscal 2020, 2019 and 2018. CLPS Japan was established in Japan and is subject to statutory income tax at 23.2%. Ridik Consulting was established in India and is subject to statutory income rate at 18.5%. Ridik Sdn. was established in Malaysia and is subject to statutory income tax rate at 24%. CLPS US was established in US and is subject to federal tax at a rate of 21% and state tax at a rate of 0% in Delaware, CLPS California was established in US and is subject to federal tax at a rate of 21% and state tax at a rate of 8.84% in California. Ridik Software was established in UK and is subject to statutory income tax rate at 19%.

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 2015. The status was renewed in 2016 for 2016 to 2018 and it renewed, again, in October 2019 for 2019 to 2021. The impact of the preferential tax treatment noted above decreased income taxes by \$193,004, \$217,671 and \$285,130 for the fiscal 2020, 2019 and 2018, respectively.

Income (loss) before income taxes

	For the years ended June 30,		
	2020	2019	2018
PRC	\$ 9,266,586	\$ 6,082,916	\$ 2,863,419
Non-PRC	(5,559,127)	(9,183,561)	(260,649)
	\$ 3,707,459	\$ (3,100,645)	\$ 2,602,770

The following table reconciles the statutory rate to the Company’s effective tax rate:

	For the years ended June 30,		
	2020	2019	2018
PRC statutory income tax rate	25.0%	25.0%	25.0%
Effect of income tax rate difference in other jurisdictions	36.8%	(70.7)%	(1.8)%
Effect of tax rate changes on deferred taxes	4.5%	3.6%	-
Effect of PRC preferential tax rate and tax holidays	(7.8)%	7.0%	(11.0)%
R&D credits	(52.4)%	53.4%	(18.3)%
Tax receivable	-	5.8%	-
Deferred tax	(0.1)%	(12.8)%	-
Change in valuation allowances	12.1%	(17.0)%	7.9%
Others	4.4%	(0.3)%	(6.1)%
Effective tax rate	22.5%	(6.0)%	(4.3)%

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**NOTE 14 – TAXES - continued**

**(a) Corporate Income Taxes (“CIT”) (continued)**

The provision (benefit) for income tax consists of the following:

	<b>For the years ended June 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Current income tax	\$ 662,704	\$ 86,506	\$ 95,923
Deferred income tax	172,740	100,109	(208,051)
Total provision (benefit) for income tax expenses	<u>\$ 835,444</u>	<u>\$ 186,615</u>	<u>\$ (112,128)</u>

As of June 30, 2020 and 2019, the Company had net operating loss carry forwards of approximately \$5,721,651 and \$4,326,319, respectively, from the Company’s PRC subsidiaries, which will expire between 2020 and 2025 if not utilized. As of June 30, 2020, the Company had net operating loss carry forwards of approximately \$509,033, \$251,128, \$1,518, \$11,228 and \$5,513 from its operations in Singapore, Australia, Hong Kong, Japan and India, respectively. The net operating losses in Singapore, Australia and Hong Kong will be carried forward indefinitely while the net operating losses in Japan and India will be carried forward for 10 years and 8 years, respectively.

The significant components of the deferred tax assets are as follows:

	<b>As of June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Deferred tax assets:</b>		
Net operating loss carry forwards	\$ 1,589,884	\$ 1,227,940
Accrued expenses and other	236,245	336,383
Share of investee’s loss	7,123	-
Intangible assets, net	-	(39,914)
Valuation allowances	(1,630,005)	(1,186,188)
Total deferred tax assets	<u>\$ 203,247</u>	<u>\$ 338,221</u>
<b>Deferred tax liabilities:</b>		
Intangible assets, net	\$ 160,911	\$ -
Share of investee’s income	2,252	-
Total deferred tax liabilities	<u>\$ 163,163</u>	<u>\$ -</u>

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, 2020 and 2019, valuation allowances were provided against deferred tax assets in entities which were in a three-year cumulative losses position and/or are not forecasted to turn profits in the foreseeable future as of June 30, 2020.

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 January 1, 2008 and applies to earnings after December 31, 2007. As of June 30, 2020 and 2019, the Company intends to permanently reinvest the undistributed earnings from PRC subsidiaries to fund future operations and thus 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. The amount of unrecognized deferred tax liabilities for temporary differences related to investments in foreign subsidiaries is not determined because such a determination is not practicable.

**CLPS INCORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 14 – TAXES - continued**

**(a) Corporate Income Taxes (“CIT”) (continued)**

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, 2020, the Company had unrecognized tax benefits of \$194,939, if ultimately recognized, will impact the effective tax rate. The Company has presented unrecognized tax benefits of \$128,467 on a net basis with deferred tax assets relating to tax losses carry forward which otherwise a full valuation allowance would be recorded. The Company did not record any interest and penalties related to potential underpaid income tax expenses for the years ended June 30, 2020 and 2019, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefit was as follows:

	<b>For the year ended June 30, 2020</b>
Balance as of July 1, 2019	\$ 128,467
Increases	228,358
Decreases	(157,906)
Foreign currency translation adjustment	(3,980)
Balance as of June 30, 2020	\$ 194,939

As of June 30, 2020, the tax years ended December 31, 2015 through December 31, 2019 for the Company’s PRC entities remain open for statutory examination by PRC tax authorities.

**(b) Tax Payables**

The Company’s tax payables consist of the following:

	<b>As of June 30,</b>	
	<b>2020</b>	<b>2019</b>
VAT tax payable	\$ 532,649	\$ 282,340
Corporate income tax payable	225,311	113,083
Withholding tax payable	194,747	133,210
Disability insurance fund payable	438,759	363,149
Other tax payables	35,148	23,847
Total tax payables	\$ 1,426,614	\$ 915,629

**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 \$944,645, \$827,593 and \$730,705 for the years ended June 30, 2020, 2019 and 2018, respectively.

Future minimum lease payments under non-cancellable operating leases are as follows:

<b>Twelve months ending June 30,</b>	<b>Lease expense</b>
2021	\$ 775,891
2022	181,354
Total	\$ 957,245

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**  
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**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:

	<b>For the years ended June 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Basic earnings (loss) per share calculation:</b>			
Numerator:			
Net income (loss) attributable to common shares	\$ 2,938,239	\$ (3,269,776)	\$ 2,434,463
Denominator:			
Weighted average common shares outstanding	14,689,224	13,843,764	11,517,123
Basic earnings (loss) per share attributable to common shares	\$ 0.20	\$ (0.24)	\$ 0.21
<b>Diluted earnings (loss) per share calculation:</b>			
Numerator:			
Net income (loss) attributable to common shares for calculating diluted earnings per share	\$ 2,938,239	\$ (3,269,776)	\$ 2,434,463
Denominator:			
Weighted average common shares outstanding	14,689,224	13,843,764	11,517,123
Weighted average common shares equivalents:			
Effects of dilutive securities			
Warrants	-	-	119,244
RSUs	3,075	-	-
Shares used in computing diluted earnings per share attributable to common shares	14,692,299	13,843,764	11,636,367
Diluted earnings (loss) per share attributable to common shares	\$ 0.20	\$ (0.24)	\$ 0.21

For the year ended June 30, 2020, warrants and options were out-of-the-money with no dilutive effect. 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. For the year ended June 30, 2018, there were no RSUs or options issued and outstanding.

**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. During year ended June 30, 2020, no warrants were exercised. As of June 30, 2020 and 2019, 107,000 warrants were issued and outstanding.

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:

	<b>For the year ended June 30, 2018</b>
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**  
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**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.

**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.

**c) 2020 Equity Incentive Plan (the “2020 Plan”)**

In April 2020, the Company’s shareholders and Board approved the 2020 Plan. The 2020 Plan is to cancel the rest of authorized shares not granted under the 2017 and 2019 Plan. The 2020 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 2020 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 11,011,663 shares for grants under the 2020 Plan.

**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.

On November 27, 2019, the Company granted an aggregate of 775,250 stock options to key employees and senior executives under the 2017 Plan. The stock options are valid for a period of 5 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 27, 2020 and the second, third and fourth 25% cliff vest on November 27, 2021, 2022 and 2023, 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 \$1.03 for senior executives and \$1.01 for key employees, respectively. The estimated total fair value of stock options granted was \$0.8 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 \$0.5 million and \$0.3 million were recognized for the years ended June 30, 2020 and 2019, respectively.

The assumptions used to value the Company’s stock options grants were as follows:

	<b>For the years ended</b>	
	<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>
Expected volatility	43%	47%
Risk-free interest rate	1.63%	3.06%
Exercise multiples	2.2~2.8	2.2~2.8
Expected dividend yield	0%	0%
Forfeited rates	9~10%	5~10%
Fair market value per common share	\$ 5.25	\$ 5.80

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**NOTE 18 – SHARE-BASED PAYMENT - continued**

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.

The following table sets forth the summary of stock options activities:

	Number of stock options	Weighted Average Exercise Price	Weighted Average Grant-date Fair Value	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
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
Outstanding as of July 1, 2019	294,407	\$ 5.25	\$ 3.01	9.4 years	117,763
Granted	775,250	\$ 2.68	\$ 1.02	-	-
Exercised	-	-	-	-	-
Forfeited or expired	(80,725)	\$ 3.46	\$ 1.59	-	-
Outstanding as of June 30, 2020	988,932	\$ 3.38	\$ 1.56	5.4 years	-
Outstanding and exercisable as of June 30, 2020	86,337	\$ 5.25	\$ 3.04	-	-
Vested and expected to vest as of June 30, 2020	766,407	\$ 3.47	\$ 1.63	5.4 years	-

The aggregate intrinsic value in the table above represents the difference between the closing stock price on the last trading day in fiscal 2020 and 2019 and the options’ respective exercise price. Total intrinsic value of options exercised for the year ended June 30, 2020 was nil.

As of June 30, 2020, 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 1.6 years as of June 30, 2020. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures.

**Restricted Share Units**

On July 12, 2018, the Company granted an aggregate of 671,469 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.

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**NOTE 18 – SHARE-BASED PAYMENT - continued**

On October 8, 2019, the Company granted 18,700 RSUs to key employees under the 2017 Plan. The RSUs granted to the employees 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 \$5.07 and the estimated total fair value of the RSUs granted was \$94,809.

On November 27, 2019, the Company granted 594,600 RSUs to key employees and directors under the 2017 Plan. The RSUs granted to the employees and directors fully vest on 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 \$2.70 and the estimated total fair value of the RSUs granted was \$1,605,420.

On May 6, 2020, the Company granted 1,073,700 RSUs to key employees under the 2020 Plan. The RSUs granted to the employees fully vest on 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 \$2.06 and the estimated total fair value of the RSUs granted was \$2,208,601.

On June 24, 2020, the Company granted 46,050 RSUs to key employees under the 2020 Plan. The RSUs granted to the employees fully vest on specified date within two years. The RSUs are valid for a period of 10 years from the grant date. The weighted-average grant-date fair value per share was \$2.41 and the estimated total fair value of the RSUs granted was \$110,981.

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 \$3.5 million and 6.7 million was recognized for the year ended June 30, 2020 and 2019, respectively.

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, 2019	459,648	\$ 12.06
Granted	1,733,050	\$ 2.32
Vested	(1,830,514)	\$ 3.12
Forfeited or expired	(153,216)	\$ 12.03
Outstanding as of June 30, 2020	208,968	\$ 9.56

As of June 30, 2020, there was \$0.2 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 0.2 years. The total fair value of the restricted share units vested was \$4.7 million and \$2.7 million during the year ended June 30, 2020 and 2019, respectively.

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.

During the year ended June 30, 2020, the Company recognized total share-based compensation expenses of \$4.03 million, including \$14,110, \$211,573 and \$3,821,563 in cost of revenues, selling and marketing expenses, and general and administrative expenses, respectively.

**CLPS INCORPORATION**  
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**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.

On September 26, 2019, Qiner acquired an 80% interest in Ridik Pte. Ltd. (“Ridik Pte.”) located in Singapore from third party selling shareholders with the final purchase price of \$2,462,580 (3,402,304 Singapore dollars), in the form of cash of \$2,026,043 (2,799,180 Singapore dollars) and the Company’s common shares were valued at \$436,537 (603,123 Singapore dollars), respectively. On December 3, 2019, the Company issued 86,615 common shares with \$0.0001 par value per share to the selling shareholders (Note 3).

Prior to December 2019, CLPS Shanghai held a 70% equity interest of CLPS Shenzhen and an 80% equity interest of CLPS Hong Kong, which held the remaining 30% equity interest of CLPS Shenzhen. On December 9, 2019, Qiner acquired the remaining 20% equity interest of CLPS Hong Kong from the non-controlling shareholder with the consideration of the Company’s 100,000 common shares valued at \$278,000, therefore holding 100% of CLPS Hong Kong and CLPS Shenzhen’s equity interest accordingly. On December 3, 2019, the Company issued 100,000 common shares with \$0.0001 par value per share to non-controlling shareholder. The carrying amount of the non-controlling interests was \$(130,992). The transaction was accounted for as an equity transaction and the difference of \$131,002 between the purchase consideration and the carrying value of the non-controlling interest of CLPS Hong Kong and CLPS Shenzhen was recorded in the additional paid-in capital on the consolidated balance sheets.

**CLPS INCORPORATION**  
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**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, 2020, 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 \$970,009, \$715,335 and \$437,796 to statutory reserves during the years ended June 30, 2020, 2019 and 2018, 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 \$9.9 million and \$8.7 million as of June 30, 2020 and 2019, 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.

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**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, 2020, 2019 and 2018.

	<b>For the years ended June 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Mainland China	\$ 78,840,635	\$ 60,398,820	\$ 47,196,671
Singapore	7,369,345	2,525,489	-
Hong Kong	3,071,857	1,961,763	1,414,175
Australia	2,167	46,865	210,984
Malaysia	125,748	-	-
Japan	5,394	-	-
India	652	-	-
Taiwan	-	-	116,763
<b>Total</b>	<b>\$ 89,415,798</b>	<b>\$ 64,932,937</b>	<b>\$ 48,938,593</b>

The following table presents revenues by the service lines for the years ended June 30, 2020, 2019 and 2018.

	<b>For the years ended June 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
IT consulting service	\$ 87,136,754	\$ 61,755,355	\$ 47,159,651
Customized IT solution service	1,844,892	3,041,482	1,634,100
Other	434,152	136,100	144,842
<b>Total</b>	<b>\$ 89,415,798</b>	<b>\$ 64,932,937</b>	<b>\$ 48,938,593</b>

**NOTE 21 – SUBSEQUENT EVENTS**

On July 27, 2020, the Company and a third-party company incorporated CLPS Guangdong Zhichuang Software Technology Co., Ltd. (“CLPS Guangdong Zhichuang”) in Shenzhen. The Company holds 10% of equity interest in CLPS Guangdong Zhichuang for \$0.14 million (RMB 1,000,000). On August 13, 2020, the Company injected \$28,571 (RMB 200,000) to CLPS Guangdong Zhichuang.

On August 28, 2020, the Company, the Chairman of the Company and a third-party incorporated CLPS Shenzhen Robotics Co. Ltd (“CLPS Shenzhen Robotics”) in Shenzhen. The Company holds 10% of equity interest in CLPS Shenzhen Robotics for \$0.14 million (RMB 1,000,000). On September 15, 2020, the Company injected \$147,451 (RMB1,000,000) to CLPS Shenzhen Robotics.

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**NOTE 22 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION**

*Condensed balance sheets*

	<b>As of June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 181,513	\$ 3,471,191
Escrow receivable	-	200,000
Amounts due from subsidiaries	7,121,760	4,987,999
Prepayments, deposits and other assets, net	161,767	39,961
<b>Total Current Assets</b>	<b>7,465,040</b>	<b>8,699,151</b>
Investments in subsidiaries	20,598,908	12,673,565
<b>Total Assets</b>	<b>\$ 28,063,948</b>	<b>\$ 21,372,716</b>
<b>LIABILITIES AND SHAREHOLDERS’ EQUITY</b>		
Current liabilities		
Salaries and benefits payable	715,304	584,280
<b>Total Current Liabilities</b>	<b>715,304</b>	<b>584,280</b>
<b>Commitments and Contingencies</b>		
Shareholders’ Equity		
Common stock, \$0.0001 par value, 100,000,000 shares authorized; 15,930,330 shares issued and outstanding as of June 30, 2020; 13,913,201 shares issued and outstanding as of June 30, 2019. *	1,593	1,391
Additional paid-in capital	28,586,048	24,276,622
Accumulated (deficits) retained earnings	123,668	(2,675,927)
Accumulated other comprehensive loss	(1,362,665)	(813,650)
<b>Total Shareholders’ Equity</b>	<b>27,348,644</b>	<b>20,788,436</b>
<b>Total Liabilities and Shareholders’ Equity</b>	<b>\$ 28,063,948</b>	<b>\$ 21,372,716</b>

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

**CLPS INCORPORATION**  
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**NOTE 22 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION - continued**

***Condensed statements of comprehensive (loss) income***

	<b>For the years ended June 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Revenues	\$ -	\$ 201,614	\$ -
Less: Cost of revenues	-	(200,954)	-
Gross profit (loss)	-	660	-
General and administrative expenses	(5,505,559)	(8,651,816)	(619,892)
Share of profit in subsidiaries, net (Note a)	8,404,632	5,317,315	3,055,340
Other income	46,904	66,806	-
Other expenses	(7,739)	(2,741)	(985)
Income (loss) before income tax	2,938,238	(3,269,776)	2,434,463
Benefit for income tax	-	-	-
Net income (loss)	2,938,238	(3,269,776)	2,434,463
Other comprehensive (loss) income			
Foreign currency translation (loss) gain	\$ (549,015)	\$ (411,973)	\$ 45,593
Comprehensive income (loss)	\$ 2,389,223	\$ (3,681,749)	\$ 2,480,056

***Condensed statements of cash flows***

	<b>For the years ended June 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Net cash used in operating activities	\$ (3,586,857)	\$ (3,189,448)	\$ (4,099,305)
Net cash provided by financing activities	200,000	1,472,592	9,341,538
Effect of exchange rate changes on cash	97,179	569	(54,755)
Net (decrease) increase in cash	(3,289,678)	(1,716,287)	5,187,478
Cash and cash equivalents, at the beginning of the year	\$ 3,471,191	\$ 5,187,478	\$ -
Cash, cash equivalents at the end of the year	\$ 181,513	\$ 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.

<b>Exhibit No.</b>	<b>Description</b>
1.1	<a href="#">Form of Underwriting Agreement (2).</a>
2	<a href="#">Description of Securities registered under Section 12 of the Exchange Act</a>
3.1	<a href="#">Memorandum and Articles of Association (1).</a>
4.1	<a href="#">Specimen Share Certificate (1).</a>
10.1	<a href="#">2017 Equity Incentive Plan (1).</a>
10.2	<a href="#">2019 Equity Incentive Plan (3).</a>
10.3	<a href="#">2020 Equity Incentive Plan(4).</a>
10.4	<a href="#">Form Independent Director Agreement (1).</a>
10.5	<a href="#">Employment Agreement between the Company and Xiao Feng Yang (1).</a>
10.6	<a href="#">Employment Agreement between the Company and Raymond Ming Hui Lin (1).</a>
10.7	<a href="#">Employment Agreement between the Company and Rui Yang (5).</a>
10.8	<a href="#">Employment Agreement between the Company and Li Li.</a>
10.9	<a href="#">ANZ Global Services and Operations (Chengdu) Company Limited Agreement (1).</a>
10.10	<a href="#">Master Lease Agreement - Shanghai Pudong Software Park Co., Ltd..</a>
10.11	<a href="#">Master Lease Agreement - Shanghai Pudong Software Park Co., Ltd..</a>
10.12	<a href="#">Master Lease Agreement - Sun Hung Kai Real Estate Agency Ltd..</a>
10.13	<a href="#">Form of Framework Contract for Subcontracting (1).</a>
10.14	<a href="#">Form Warrant Agreement (2).</a>
10.15	<a href="#">Form Lockup Agreement (2).</a>
10.16	<a href="#">Escrow Indemnification Agreement (2).</a>
10.17	<a href="#">Credit Agreement with China Merchants Bank Co. Ltd.-3 million</a>
10.18	<a href="#">Credit Agreement with China Merchants Bank Co. Ltd.-5 million</a>
10.19	<a href="#">Credit Agreement with Bank of Communications Co., Ltd.</a>
12.1	<a href="#">Certification of the Chief Executive Officer (Principal Executive Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.</a>
12.2	<a href="#">Certification of the Chief Financial Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.</a>
13.1	<a href="#">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.</a>
14.1	<a href="#">Code of Conduct and Ethics (1).</a>
21.1	<a href="#">List of Subsidiaries of the Registrant.</a>
23.1	<a href="#">Consent of Ernst &amp; Young Hua Ming LLP.</a>
23.2	<a href="#">Consent of Friedman LLP.</a>
99.1	<a href="#">Charter of the Audit Committee (1).</a>
99.2	<a href="#">Charter of the Compensation Committee (1).</a>
99.3	<a href="#">Charter of the Nominating Committee (1).</a>
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.

(4) Previously filed as part of the registration statement filed with the SEC on April 27, 2020 and incorporated by reference herein.

(5) Previously filed as part of the registration statement filed with the SEC on November 4, 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 22, 2020

By: /s/ Raymond Ming Hui Lin  
Name: Raymond Ming Hui Lin  
Title: Chief Executive Officer  
(Principal Executive Officer)

October 22, 2020

By: /s/ Rui Yang  
Name: Rui Yang  
Title: Acting Chief Financial Officer  
(Principal Financial and Accounting Officer)

## DESCRIPTION OF COMMON SHARES

We are a Cayman Islands company and our affairs are governed by our Memorandum and Articles of Association and Companies Law of the Cayman Islands, which we refer to as the Companies Law below. As of the date hereof, our authorized share capital consists of 100,000,000 common shares with a par value of US\$0.0001 per share. The following are summaries of material provisions of our memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our shares.

### Common Shares

**General.** All of our outstanding common shares are fully paid and non-assessable. Certificates representing the common shares are issued in registered form. Our shareholders, whether or not they are non-residents of the Cayman Islands, may freely hold and transfer their common shares in accordance with the Memorandum and Articles of Association.

**Dividends.** The holders of our common shares are entitled to such dividends as may be declared by our board of directors. Our articles of association provide that our board of directors may declare and pay dividends if justified by our financial position and permitted by law.

**Voting Rights.** In respect of all matters subject to a shareholders' vote, each common share is entitled to one vote. Voting at any meeting of shareholders is by show of hands unless voting by way of a poll is required by the rules of any stock exchange on which our shares are listed for trading, or a poll is demanded by the chairman of such meeting or one or more shareholders holding not less than 10% of the total voting rights of all shareholders having the right to vote at the meeting. A quorum required for a meeting of shareholders consists of one shareholder who holds at least one-third of our issued voting shares. Shareholders' meetings may be held annually. Each general meeting, other than an annual general meeting, shall be an extraordinary general meeting. Extraordinary general meetings may be called by a majority of our board of directors or upon a requisition of shareholders holding at the date of deposit of the requisition not less than 40% of the aggregate share capital of our company that carries the right to vote at a general meeting, in which case an advance notice of at least 120 clear days is required for the convening of our annual general meeting and other general meetings by requisition of the shareholders. An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the common shares cast at a meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the common shares cast at a meeting. A special resolution will be required for important matters such as a change of name or making changes to our memorandum and articles of association.

**Transfer of Common Shares.** Subject to the restrictions set out below, any of our shareholders may transfer all or any of his or her common shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors. Our board of directors may, in its absolute discretion, decline to register any transfer of any common share irrespective of whether the shares is fully paid or the Company has no lien over it. If our board of directors refuses to register a transfer, it shall, within two months after the date on which the transfer was lodged, send to each of the transferor and the transferee notice of such refusal. Upon completion of this offering, we intend to waive our right to refuse transfers of any common shares. The registration of transfers may, after compliance with any notice required of the stock exchange on which our shares are listed, be suspended at such times and for such periods as our board of directors may determine, provided, however, that the registration of transfers shall not be suspended for more than 30 days in any year as our board of directors may determine.

**Calls on Common Shares and Forfeiture of Common Shares.** Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their common shares in a notice served to such shareholders at least 14 clear days prior to the specified time of payment. The common shares that have been called upon and remain unpaid are subject to forfeiture.

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**Redemption of Common Shares.** The Companies Law and our memorandum of association permit us to purchase our own shares. In accordance with our articles of association and provided the necessary shareholders or board approval have been obtained, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner, provided the requirements under the Companies Law have been satisfied, including out of capital, as may be determined by our board of directors.

**Inspection of Books and Records.** Holders of our common shares have no general right under our articles of association to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See “Where You Can Find Additional Information.”

**Issuance of Additional Shares.** Our memorandum of association authorizes our board of directors to issue additional common shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares. Our memorandum of association also authorizes our board of directors to establish from time to time one or more series of preference shares and to determine, with respect to any series of preference shares, the terms and rights of that series, including:

- the designation of the series to be issued;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preference shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of common shares.

**Anti-Takeover Provisions.** Some provisions of our memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders.

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## EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the “Agreement”) is entered into as of June 11, 2019 with the effective date of June 11, 2019 (the “Effective Date”), by and between CLPS INCORPORATION, a Cayman Islands corporation (the “Company”) having its principal place of business at c/o 2nd Floor, Building 18, Shanghai Pudong Software Park, 498 Guoshoujin Road, Pudong, Shanghai 201203, People’s Republic of China, and Li Li (“Executive”, and the Company and the Executive collectively referred to herein as the “Parties”).

**WITNESSETH:**

**WHEREAS**, the Company desires to hire Executive and to employ him as the Company’s Chief Operation Officer (“COO”) effective as of the Effective Date, and the Parties desire to enter into this Agreement embodying the terms of such employment;

**NOW, THISEFORE**, in consideration of the premises and the mutual covenants and promises of the Parties contained herein, the Parties, intending to be legally bound, hereby agree as follows:

**1. Title and Job Duties.**

(a) Subject to the terms and conditions set forth in this Agreement, the Company agrees to employ Executive as Chief Operation Officer. Executive shall report directly to the Chief Executive Officer of the Company (the “CEO”).

(b) Executive accepts such employment and agrees, during the term of his employment, to devote his full business and professional time and energy to the Company, and agrees faithfully to perform his duties and responsibilities in an efficient, trustworthy and business-like manner. Executive also agrees that the CEO shall determine from time to time such of his duties as may be assigned to him. Executive agrees to carry out and abide by such directions of the CEO. Visible leadership is expected from Executive, which will require frequent travelling.

(c) Without limiting the generality of the foregoing, Executive shall not, without the written approval of the Company, render services of a business or commercial nature on his own behalf or on behalf of any person, firm, or corporation, whether for compensation or otherwise, during his employment hereunder. The foregoing limitation shall not apply to Executive’s involvement in associations, charities and service on another entity’s board of directors, provided such involvement does not interfere with Executives responsibilities (and as it pertains to any service on another entity’s board of directors, provided such action is pre-approved by the Company).

**2. Salary and Additional Compensation.**

(a) Base Salary. The Company shall pay to Executive an annual base salary (“Base Salary”) of a total of RMB 360,000, HK\$273,600, in accordance with the Company’s normal payroll procedures and an eligibility to receive 12,000 restricted shares in November 2020. The Compensation Committee shall review the Executive’s Base Salary no less than annually and may increase (but not decrease) such Base Salary during the term of this Agreement.

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(b) Annual Bonus. Commencing with the year ending June 30, 2020, Executive will be entitled to receive an annual cash bonus (the "Annual Bonus"), payable with respect to each year of the Term subsequent to the issuance of the Company's final audited financial statements for such year. The final determination on the amount, if any, of the Annual Bonus will be made by, and in the sole discretion of the Compensation Committee of the Board of Directors of the Company (the "Board") (or the Board, if such committee has been dissolved), based on criteria established by the Compensation Committee of the Board (or the Board, if such committee has been dissolved). For the fiscal year in which Executive commences employment with the Company, Executive will be entitled to receive an Annual Bonus which is prorated based on the number of days from the Effective Date until the end of the fiscal year divided by 365.

3. Expenses. In accordance with Company policy, the Company shall reimburse Executive for all reasonable association fees, professional related expenses (certifications, licenses and continuing professional education) and business expenses properly and necessarily incurred and paid by Executive in the performance of his duties under this Agreement, including without limitation all travel expenses to and from his designated office as set forth in the opening paragraph of this Agreement, upon his presentment of detailed receipts in the form required by the Company's policy. Notwithstanding the foregoing, all expenses must be promptly submitted for reimbursement by the Executive. In no event shall any reimbursement be paid by the Company after the end of the year following the year in which the expense is incurred by the Executive.

#### 4. Benefits.

(a) Vacation .. Executive shall be entitled to eighteen (18) days of vacation per year , which shall accrue at a pro rata rate per pay period. Vacation must be taken in the year in which it accrues and the dates of any vacation must be approved by the CEO.

(b) Health Insurance and Other Plans. Executive shall be eligible to participate in the Company's medical, dental and other employee benefit programs, if any, that are provided by the Company for its employees at Executive's level in accordance with the provisions of any such plans, as the same may be in effect from time to time.

5. Term. The term of employment under this Agreement (the "Term") shall be for a five-year period commencing on the Effective Date and shall be automatically extended for an additional consecutive twelve (12)-month period on the fifth (5th) anniversary of the Effective Date and each subsequent anniversary thereof, unless and until the Company or Executive provides written notice to the other party not less than ninety (90) days before such anniversary date that such party is electing not to extend the Term, in which case the Term shall end at the expiration of the Term as last extended, unless sooner terminated as set forth below. Following any such notice by the Company of its election not to extend the Term, Executive may terminate his employment at any time prior to the expiration of the Term by giving written notice to the Company at least thirty (30) days prior to the effective date of termination, and upon the earlier of such effective date of termination or the expiration of the Term, Executive shall be entitled to receive the same severance benefits as are provided upon a termination of employment by the Company without Cause as described in Section 7(a) and Section 7(d).

6. Termination.

(a) Termination at the Company's Election.

(i) For Cause. At the election of the Company, Executive's employment may be terminated at any time for Cause (as defined below) upon written notice to Executive given pursuant to Section 12 of this Agreement. For purposes of this Agreement, "Cause" for termination shall mean that Executive: (A) pleads "guilty" or "no contest" to, or is convicted of an act which is defined as a felony under federal or state law, or is indicted or formally charged with acts involving criminal fraud or embezzlement; (B) in carrying out his duties, engages in conduct that constitutes gross negligence or willful misconduct; (C) engages in substantiated fraud, misappropriation or embezzlement against the Company; (D) engages in any inappropriate or improper conduct that causes material harm to the reputation of the Company; or (E) materially breaches any term of this Agreement. With respect to subsection (E) of this section, to the extent such material breach may be cured, the Company shall provide Executive with written notice of the material breach and Executive shall have ten (10) days to cure such breach.

(ii) Upon Disability, Death or Without Cause. At the election of the Company, Executive's employment may be terminated: (A) should Executive have a physical or mental impairment that substantially limits a major life activity and Executive is unable to perform the essential functions of his job with or without reasonable accommodation ("Disability"); (B) upon Executive's death; or (C) with ninety (90) days prior written notice, at any time Without Cause for any or no reason.

(b) Termination at Executive's Election; Good Reason Termination. Notwithstanding anything contained elsewhere in this Agreement to the contrary, Executive may terminate his employment hereunder at any time and for any reason, upon thirty (30) days' prior written notice given pursuant to Section 12 of this Agreement ("Voluntary Resignation"), provided that upon notice of resignation, the Company may terminate Executive's employment immediately and pay Executive thirty (30) days' Base Salary in lieu of notice. Furthermore, the Executive may terminate this Agreement for "Good Reason," which shall be deemed to exist: (i) if the Company's Board of Directors or that of any successor entity of Company, fails to appoint or reappoint the Executive or removes the Executive as the CFO of the Company; (ii) if Executive is assigned any duties materially inconsistent with the duties or responsibilities of the CFO of the Company as contemplated by this Agreement or any other action by the Company that results in a material diminution in such position, authority, duties, or responsibilities, excluding an isolated, insubstantial, and inadvertent action not taken in bad faith; or (iii) a material breach by the Company of this Agreement. Good Reason shall not exist hereunder unless the Executive provides notice in writing to the Company of the existence of a condition described above within a period not to exceed ninety (90) days of the initial existence of the condition, and with respect to subsection (iii) of this section, to the extent such material breach may be cured, the Company does not remedy the condition within thirty (30) days of receipt of such notice.

(c) Termination in General. If Executive's employment with the Company terminates for any reason, the Company will pay or provide to Executive: (i) any unpaid Salary through the date of employment termination, (ii) any unpaid Annual Bonus for the fiscal year prior to the fiscal year in which the termination occurs (payable at the time the bonuses are paid to employees generally), (iii) any accrued but unused vacation or paid time off in accordance with the Company's policy, (iv) reimbursement for any unreimbursed business expenses incurred through the termination date, to the extent reimbursable in accordance with Section 3, and (v) all other payments or benefits (if any) to which Executive is entitled under the terms of any benefit plan or arrangement.

## 7. Severance.

(a) Subject to Section 7(b) below, if Executive's employment is terminated prior to the end of the Term by the Company without Cause or by Executive for Good Reason, Executive shall be entitled to receive a severance payment equal to a pro rata portion of the target Annual Bonus for the year in which such termination occurs. Such severance payment shall be made in a single lump sum sixty (60) days following such termination, provided the Executive has executed and delivered to the Company, and has not revoked a general release of the Company, its parents, subsidiaries and affiliates and each of its officers, directors, employees, agents, successors and assigns, and such other persons and/or entities as the Company may determine, in a form reasonably acceptable to the Company. Such general release shall be delivered on or about the date of termination and must be executed within fifty-five (55) days of termination.

(b) If Executive's employment is terminated prior to the end of the Term by the Company without Cause or by Executive for Good Reason, and such termination occurs within three months prior to a Change in Control in contemplation of the Change in Control or within six (6) months after the Change in Control, Executive shall be entitled to receive, in addition to any severance pursuant to Section 7(a) above, an acceleration of the vesting of the RS Grant or, if the termination occurs after the Change of Control, the Substitute Grant, as applicable. For purposes of this Agreement, "Change in Control" means the occurrence of any of the following events: (i) an acquisition (other than directly from the Company) of any voting securities of the Company by any person or group of affiliated or related persons (as such term is defined in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 ("Exchange Act")), immediately after which such person or group has beneficial ownership (within the meaning of the Exchange Act) of more than fifty percent (50%) of the combined voting power of the Company's then outstanding voting securities; provided that this subsection shall not apply to an acquisition of voting securities by any employee benefit plan or trust maintained by or for the benefit of the Company or its employees; (ii) a merger, consolidation or reorganization involving the Company whereby the holders of Company common stock immediately preceding such transaction no longer hold a majority of the shares of Company common stock after such transaction; or (iii) the sale or other disposition of all or substantially all of the Company's assets.

(c) If Executive's employment is terminated prior to the end of the Term by the Company without Cause or by Executive for Good Reason, and if Executive is eligible for and elects to continue to participate in the Company's medical and dental benefit programs, the Company will continue to pay the same portion of Executive's medical and dental insurance premiums as during active employment (for Executive and eligible spouse and dependents) until the earlier of: (1) nine months from Executive's cessation from employment; or (2) the date Executive is eligible for medical and/or dental insurance benefits from another employer.

## 8. Confidentiality Agreement.

(a) Executive understands that during the Term he may have access to unpublished and otherwise confidential information both of a technical and non-technical nature, relating to the business of the Company and any of its parents, subsidiaries, divisions, affiliates (collectively, "Affiliated Entities"), or clients, including without limitation any of their actual or anticipated business, research or development, any of their technology or the implementation or exploitation thereof, including without limitation information Executive and other have collected, obtained or created, information pertaining to patent formulations, vendors, prices, costs, materials, processes, codes, material results, technology, system designs, system specifications, materials of construction, trade secrets and equipment designs, including information disclosed to the Company by other under agreements to hold such information confidential (collectively, the "Confidential Information"). Executive agrees to observe all Company policies and procedures concerning such Confidential Information. Executive further agrees not to disclose or use, either during his employment or at any time thereafter, any Confidential Information for any purpose, including without limitation any competitive purpose, unless authorized to do so by the Company in writing, except that he may disclose and use such information when necessary in the performance of his duties for the Company. Executive's obligations under this Agreement will continue with respect to Confidential Information, whether or not his employment is terminated, until such information becomes generally available from public sources through no action of Executive. Notwithstanding the foregoing, however, Executive shall be permitted to disclose Confidential Information as may be required by a subpoena or other governmental order, provided that he first notifies promptly the Company of such subpoena, order or other requirement and allows the Company the opportunity to obtain a protective order or other appropriate remedy.

(b) During Executive's employment, upon the Company's request, or upon the termination of his employment for any reason, Executive will promptly deliver to the Company all documents, records, files, notebooks, manuals, letters, notes, reports, customer and supplier lists, cost and profit data, e-mail, apparatus, computers, cell phones, tablets, hardware, software, drawings, and any other material of the Company or any of its Affiliated Entities or clients, including all materials pertaining to Confidential Information developed by Executive or other, and all copies of such materials, whether of a technical, business or fiscal nature, whether on the hard drive of a laptop or desktop computer, in hard copy, disk or any other format, which are in Executive's possession, custody or control.

(c) Executive will promptly disclose to the Company any idea, invention, discovery or improvement, whether patentable or not ("Creations"), conceived or made by him alone or with other at any time during his employment. Executive agrees that the Company owns all such Creations, conceived or made by Executive alone or with other at any time during his employment, and Executive hereby assigns and agrees to assign to the Company all rights he has or may acquire therein and agrees to execute any and all applications, assignments and other instruments relating thereto which the Company deems necessary or desirable. These obligations shall continue beyond the termination of his employment with respect to Creations and derivatives of such Creations conceived or made during his employment with the Company. Executive understands that the obligation to assign Creations to the Company shall not apply to any Creation which is developed entirely on his own time without using any of the Company's equipment, supplies, facilities, and/or Confidential Information unless such Creation (a) relates in any way to the business or to the current or anticipated research or development of the Company or any of its Affiliated Entities; or (b) results in any way from his work at the Company.

(d) Executive will not assert any rights to any invention, discovery, idea or improvement relating to the business of the Company or any of its Affiliated Entities or to his duties hereunder as having been made or acquired by Executive prior to his work for the Company.

(e) During the Term, the Company is hereby granted and shall have a non-exclusive, royalty-free, irrevocable, perpetual, worldwide license (with the right to grant and authorize sublicenses) to make, have made, modify, use, sell, offer to sell, import, reproduce, distribute, publish, prepare derivative works of, display, perform publicly and by means of digital audio transmission and otherwise exploit as part of or in connection with any product, process or machine created or incorporated by the Executive.

(f) Executive agrees to cooperate fully with the Company, both during and after his employment with the Company, with respect to the procurement, maintenance and enforcement of copyrights, patents, trademarks and other intellectual property rights (both in the United States and foreign countries) relating to such Creations. Executive shall sign all papers, including, without limitation, copyright applications, patent applications, declarations, oaths, formal assignments, assignments of priority rights and powers of attorney, which the Company may deem necessary or desirable in order to protect its rights and interests in any Creations. Executive further agrees that if the Company is unable, after reasonable effort, to secure Executive's signature on any such papers, any officer of the Company shall be entitled to execute such papers as his agent and attorney-in-fact and Executive hereby irrevocably designates and appoints each officer of the Company as his agent and attorney-in-fact to execute any such papers on his behalf and to take any and all actions as the Company may deem necessary or desirable in order to protect its rights and interests in any Creations, under the conditions described in this paragraph.

9. Non-solicitation; non-competition. (a) Executive agrees that, during the Term of his employment, Executive will not, directly or indirectly, including on behalf of any person, firm or other entity, employ or actively solicit for employment any employee of the Company or any of its Affiliated Entities, or anyone who was an employee of the Company or any of its Affiliated Entities within the termination of Executive's employment, or induce any such employee to terminate him or his employment with the Company or any of its Affiliated Entities.

(b) Executive further agrees that, during the Term, Executive will not, directly or indirectly, including on behalf of any person, firm or other entity, without the express written consent of an authorized representative of the Company, (i) perform services within the Territory (as defined below) for any Competing Business (as defined below), whether as an employee, consultant, agent, contractor or in any other capacity, (ii) hold office as an officer or director or like position in any Competing Business, or (iii) request any present or future customers or suppliers of the Company or any of its Affiliated Entities to curtail or cancel their business with the Company or any of its Affiliated Entities. These obligations will continue for the specified period regardless of whether the termination of Executive's employment was voluntary or involuntary or with or without Cause or for any other reason.

(c) "Competing Business" means any corporation, partnership or other entity or person (other than the Company) which is engaged (a) in the development, manufacture, marketing, distribution or sale of, or research directed to the development, manufacture, marketing, distribution or sale of competing anti-cancer drug candidates or products or (b) in any other business activity carried on or planned to be carried on by the Company or any of its Affiliates during the Term.

(d) “Territory” shall mean within any state or foreign jurisdiction in which the Company or any subsidiary of the Company is then providing services or products or marketing its services or products (or engaged in active discussions to provide such services).

(e) Executive agrees that in the event a court determines the length of time or the geographic area or activities prohibited under this Section 9 are too restrictive to be enforceable, the court shall reduce the scope of the restriction to the extent necessary to make the restriction enforceable. In furtherance and not in limitation of the foregoing, the Company and the Executive each intend that the covenants contained in this Section 9 shall be deemed to be a series of separate covenants, one for each and every state, territory or jurisdiction of the United States, the People’s Republic of China, and any foreign country set forth therein. If, in any judicial proceeding, a court shall refuse to enforce any of such separate covenants, then such unenforceable covenants shall be deemed eliminated from the provisions hereof for the purpose of such proceedings to the extent necessary to permit the remaining separate covenants to be enforced in such proceedings.

10. Representation and Warranty. The Executive hereby acknowledges and represents that he has had the opportunity to consult with legal counsel regarding his rights and obligations under this Agreement and that he fully understands the terms and conditions contained herein. Executive represents and warrants that Executive has provided the Company a true and correct copy of any agreements that purport: (a) to limit Executive’s right to be employed by the Company; (b) to prohibit Executive from engaging in any activities on behalf of the Company; or (c) to restrict Executive’s right to use or disclose any information while employed by the Company. Executive further represents and warrants that Executive will not use on the Company’s behalf any information, materials, data or documents belonging to a third party that are not generally available to the public, unless Executive has obtained written authorization to do so from the third party and provided such authorization to the Company. In the course of Executive’s employment with the Company, Executive is not to breach any obligation of confidentiality that Executive has with third parties, and Executive agrees to fulfill all such obligations during Executive’s employment with the Company. Executive further agrees not to disclose to the Company or use while working for the Company any trade secrets belonging to a third party.

11. Injunctive Relief. Without limiting the remedies available to the Company, Executive acknowledges that a breach of any of the covenants contained in Sections 7(c) and 9 above may result in material irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure precisely damages for such injuries and that, in the event of such a breach or threat thereof, the Company shall be entitled, without the requirement to post bond or other security, to obtain a temporary restraining order and/or injunction restraining Executive from engaging in activities prohibited by this Agreement or such other relief as may be required to specifically enforce any of the covenants in Sections 7(c) and 9 of this Agreement.

12. Notice. Any notice or other communication required or permitted to be given to the Parties shall be deemed to have been given if either personally delivered, or if sent for next-day delivery by nationally recognized overnight courier, and addressed as follows:

(a) If to Executive, to:

2nd Floor, Building 18, Shanghai Pudong Software Park,  
498 Guoshoujin Road, Pudong, Shanghai 201203  
People's Republic of China

(b) If to the Company, to:

2nd Floor, Building 18, Shanghai Pudong Software Park,  
498 Guoshoujin Road, Pudong, Shanghai 201203  
People's Republic of China

13. Severability. If any provision of this Agreement is declared void or unenforceable by a court of competent jurisdiction, all other provisions shall nonetheless remain in full force and effect.

14. Withholding. The Company may withhold from any payment that it is required to make under this Agreement amounts sufficient to satisfy applicable withholding requirements under any federal, state or local law.

15. Indemnification. The Company agrees that Executive will be covered by any "directors and officers" insurance policies then in effect with respect to Executive's acts as an officer.

16. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of Hong Kong, without regard to the conflict of laws provisions thereof.

17. Waiver. The waiver by either Party of a breach of any provision of this Agreement shall not be or be construed as a waiver of any subsequent breach. The failure of a Party to insist upon strict adherence to any provision of this Agreement on one or more occasions shall not be considered a waiver or deprive that Party of the right thereafter to insist upon strict adherence to that provision or any other provision of this Agreement. Any such waiver must be in writing, signed by the Party against whom such waiver is to be enforced.

18. Assignment. This Agreement is a personal contract and Executive may not sell, transfer, assign, pledge or hypothecate his rights, interests and obligations hereunder. Except as otherwise herein expressly provided, this Agreement shall be binding upon and shall inure to the benefit of Executive and his personal representatives and shall inure to the benefit of and be binding upon the Company and its successors and assigns, including without limitation, any corporation or other entity into which the Company is merged or which acquires all or substantially all of the assets of the Company.

19. Entire Agreement. This Agreement embodies all of the representations, warranties, covenants, understandings and agreements between the Parties relating to Executive's employment with the Company. No other representations, warranties, covenants, understandings, or agreements exist between the Parties relating to Executive's employment. This Agreement shall supersede all prior agreements, written or oral, relating to Executive's employment. This Agreement may not be amended or modified except by a writing signed by the Parties.

*[Signature page follows]*

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and delivered on the date first written above.

CLPS INCORPORATION

By: /s/ Raymond Ming Hui Lin

Name: Raymond Ming Hui Lin

Title: Chief Executive Officer

Agreed to and Accepted:

/s/ Li Li

Date: June 11, 2019

## Rental Contract for Shanghai Pudong Software Park Guo Shoujing Park

Both parties to this contract:

Party A (Lessor): Shanghai Pudong Software Park Co., Ltd.

Party B (Lessee): ChinaLink Professional Services Co., Ltd.

According to *Contract Law of the People's Republic of China* and *Regulations of Shanghai Municipality on House Leasing*, both parties conclude the contract on the basis of equality, voluntariness, fairness, honesty and credibility, for consenting that Party B should lease the house that Party A can lease according to law.

### Section 1.

1-1 The house which is rented to Party B by Party A is located in Room 18201/18202/18203/18204/18205/18206/18207/18208, Building 18, Guo Shoujing Road No.498, Zhang Jiang High Tech Park, Pudong, Shanghai (hereinafter referred to as "the House"). The building area of the House is 1259.94 square meters. The House should be used for research and development and office. The structure of the House is reinforced concrete structure. The plan of the house is shown in Annex I (of this contract).

1-2 Party A establishes a leasing relationship with Party B as the real estate owner of the House. Party A has told Party B and Party B has fully known that the House has been mortgaged before the contract is signed.

1-3 The following (if any) is shown in Annex II and/or supplementary agreements of the Contract: the scope of use, conditions and requirements of public or shared parts of the House, the existing decoration of the House, ancillary facilities and equipment status, and the contents, standards, related matters of the decoration and additional facilities which Party A allows Party B to do in writing. Both parties agree that all attachments and supplementary agreements should be a basis for acceptance of housing delivery and return when the Contract is terminated or released.

1-4 When the Contract is signed, the House has accepted and used by Party B, and Party B confirm that the House can fit the purpose and acquirement of rental at the beginning of the tenancy term. On the basis of Party B's occupancy of the House, Party A does not have to perform any further duty to deliver the House to Party B.

### 2. Rental Purposes

2-1 Party B has fully known the House's properties and uses and Party B promises to Party A that the House will only be used for research and development and office and Party B will abide by the state and the city regulations on the use of housing and property management.

2-2 Party B promises that the above-mentioned purpose of the use will not be changed during the rental term unless such change gets Party A's written consent and is approved by the relevant departments according to relative regulations.

### 3. Renewal Term

3-1 The Contract is a renewal contract based on the original contract (No. ZL20170016) which was signed for renting the House.

3-2 The renewal term is from July 1<sup>st</sup>, 2019 (hereinafter referred to as "lease date") to June 30<sup>th</sup>, 2021 (hereinafter referred to as "terminal date"). The rent will be counted from July 1st, 2019 (hereinafter referred to as "rent date") to terminal date.

### 4. Rent and Payment Methods

4-1 Both Parties agree that the unit rental price is counted according to the daily construction area per square meter.

From July 1st, 2019 to June 30<sup>th</sup>, 2020, the unit rental price is RMB 3.71 yuan (US\$0.51).

From July 1st, 2020 to June 30<sup>th</sup>, 2021, the unit rental price is RMB 3.86 yuan (US\$0.53).

(The above unit rental prices are tax-inclusive prices)

4-2 Party B should pay the rent for the first month no later than the rent date. The days for calculating the rent for the first month is started from the rent date to the last day of the month. The monthly rent will be calculated and paid according to the calendar days of the month (the monthly rent calculation formula is: housing construction area  $\times$  unit rental price  $\times$  the calendar days of the month. The monthly rental amount is rounded to one decimal place). Party B should pay the rent to Party A before the 10<sup>th</sup> of each month (in case of national legal holidays postponed to the next working day). The last month's rent should be calculated from the first day of last month to the terminal day. If the days of the last month are less than 10, the last month's rent should be paid before the terminal date. If the days of the last month are not less than 10, the last month's rent should be paid before the 10<sup>th</sup> day of the month (in case of national legal holidays postponed to the next working day). Party A should issue the corresponding rental invoice to Party B within 3 working days after receiving the rent of the month.

4-3 Party A should issue the corresponding rental invoice to Party B within 3 working days after receiving the rent of the month. In the term of the Contract, if the invoice type or tax rate changes due to the change of taxation policies of the state and government, Party B agrees to adjust the price of rent and deposit according to the latest tax rate during the remaining lease. At that time, Party A will give Party B a formal notice, and both Parties should sign up supplementary agreements.

4-4 Party B pays the rent to Party A's following account by check or transfer:

**Shanghai Pudong Software Park Co., Ltd.**

[ ]

4-5 The rent is denominated and settled in RMB. In any case that the rent needs to be denominated and settled in other currency (the currency should be accepted by Chinese banks and convertible into RMB), the actual amount of RMB exchanged by the bank designated by Party A shall prevail. Relevant fees due to the payment (such as bank charges) should be borne by Party B.

4-6 Party A may entrust a property management company to assist in collecting the rent.

#### 5. Rental Deposit and Other Fees

5-1 Both Parties agree that Party B shall pay rental deposit to Party A within 5 working days after signing the Contract. The amount of the deposit is equivalent to the rent for the three months (90 days) of the highest unit price within the lease term, which is RMB437,703 (US\$59,714) yuan. Party B has paid RMB 404,819.00 (US\$55,198) yuan for rental deposit under the original contract, and it will be automatically converted to the deposit under the Contract after the Contract becomes effective. The margin of the deposit is RMB 32,884.00 (US\$4,516) yuan, and Party B shall pay it to Party A within 5 working days after signing the Contract. Party A shall issue a receipt to Party B after receiving the deposit. If Party B fails to pay the lease deposit in full to Party A in accordance with the provisions of this contract, Party B shall pay Party A late payment fee of 0.3% of the outstanding amount per day, until the full payment is completed. If Party B delays or fails to pay more than 15 working days, Party A has the right to rescind the contract.

During the term of this contract, Party B shall, due to breach of contract, pay liquidated damages and/or damages to Party A in accordance with the provisions of this contract, and Party B shall separately pay Party A liquidated damages and/or damages, and shall not have the right to request Party A to deduct from the above deposit. Party A shall have the right (without any obligation) to deduct such liquidated damages and / or damages from Party B's rental deposit and notify Party B in writing of the amount of the deduction and margin supplement. Party B should pay Party A to complement the margin within 5 working days after accepting the notice from Party A.

Within 10 working days after the termination of the lease, Party A will refund Party B the balance of deposit to offset the fees (with no interest) which Party B should bear under the Contract (including but not limited to the monthly rent payable by Party B, property management fees, energy consumption, Party B's liquidated damages and / or compensation for damages). However, if Party B uses the House for the registration of Party B's residence, Party B shall, within 30 days from the date of the termination of the lease, complete the cancellation or alteration registration, and deliver the copy of the registration approval to Party A for record. Party A shall return the lease deposit to Party B according to the above term after that.

5-2 Besides the house rent and property management fees, Party B shall bear the costs of energy consumption (electricity, water and gas), communication expenses, rental fees for equipment and facilities incurred for its own use. Party A shall install separate meter for Party B's energy consumption and collect the fees from Party B according to the meter reading before transferring it to the offices of utilities. Party A may entrust property management companies to assist in collecting the above fees.

5-3 Both parties agree that the property management company entrusted by Party A (hereinafter referred to as "the management company") is responsible for the property management of the House. At the time of signing the Contract, the management company is Shanghai Puyuan Property Management Co., Ltd., which will be responsible for the property equipment operation, daily management and services of the House. Party B shall pay the property management fee. Party B shall sign the Property Management Agreement with the property management company prior to the transfer of the House. Property management fee and payment method of the House shall be implemented in accordance with the Property Management Agreement signed by Party B and the property management company.

## 6. Housing Requirements and Maintenance Responsibilities

- 6-1 During the rental term, Party A promises that the House and its ancillary public facilities would be in normal usable and safe condition. If Party B finds that there is any damage or malfunction of the House or its ancillary public facilities (other than Party B's decoration and equipment), Party B shall notice Party A and / or the management company to repair. Party A and / or the management company shall conduct inspection or repair in 48 hours after receiving the written notice from Party B and repair it within the period agreed on by both parties or within a reasonable period. If Party A shall assume the responsibility for maintenance but Party A fails to repair it overdue, Party B may take the maintenance for it and reasonable maintenance expenses shall be borne by Party A.
- 6-2 During the rental term, Party B shall fair use and take good care of the House and its affiliated public facilities, and take various preventive measures to make the House safe from rain, wind or other natural causes. Party B shall assume maintenance responsibility for the improper or unreasonable use of Party B which results in the damage or failure of the House and its affiliated public facilities. If Party B refuses to assume responsibility for maintenance, Party A can take the maintenance on behalf of Party B, and reasonable maintenance costs borne by Party B. The maintenance of non-public facilities which is owned by Party B can be entrusted to the property management companies, and maintenance costs borne by Party B.
- 6-3 Party B shall strictly follow the applicable laws, regulations, rules and regulations of China and use the House in accordance with the contractual purposes, especially not to use the House in any unreasonable or unethical way. Party B will not use the House in any way that invalidates or increases the risk of insurance. Party B shall ensure that the business activities engaged in using the House have obtained the business license issued by the government administration for industry and commerce and guarantee that legal registration and permission shall be kept throughout the lease period.
- 6-4 During the rental term, Party A reserves the right to publish or authorize others to advertise, improve or add public facilities in other proper places where is not exclusively for Party B. Party A shall not affect Party B's normal use of the House and Party B's Normal business.

6-5 Party B agrees to guarantee that Party A and / or Party A's personnel shall be exempt from Party B's personal injury and / or property damage, and Party A and Party A's personnel shall also be exempt from the third party's claims and litigation caused by Party B.

#### 7. Decoration and Accretion

7-1 Party B shall be responsible for the second decoration of the House. Party B's decoration plan (including marking on the building facade or roof or other public parts of the House) shall be subject to Party A's approval and Party A's written consent. Party B shall not, without prior written consent of Party A, carry out any unauthorized activities or allow any other person to carry out any unauthorized alteration or addition of the House and its decoration, ancillary facilities and equipment (including but not limited to trunk lines, drainage, firefighting, indoor and outdoor appearances and existing installations). If such decoration needs the approval of the government department, Party B shall obtain the approval before construction.

7-2 During renovating the House, Party B shall not damage the building's facade or carry out any internal structural alterations that may affect the service life and safety of the House, including but not limited to the demolition and alteration of the bearing beam walls. If Party B needs to change the structure of the house or modify the ancillary facilities and equipment of the house, etc., in addition to the written consent of Party A, Party B shall pay the structural restoration fee deposit in accordance with the "Relevant Charges for Second Renovation of Leased Office of Shanghai Pudong Software Park", otherwise Party B shall not carry out construction.

7-3 During the rental term, the decoration belongs to Party B, and its responsibility for maintenance is also borne by Party B, unless the Parties agree otherwise. After the expiry of the rental term (including any early termination of the Contract attributable to Party B), Party B is obliged to remove the decoration extras and restore the house to the pre-lease status (except for natural losses). If Party B does not move on schedule, Party A can take the behalf of the removal, and the cost borne by Party B or deducted the cost from the deposit unless Party A agrees that Party B shall retain decoration remnants when returning the house.

7-4 Party A's written consent to the decoration of Party B shall not be construed as Party A's obligation or responsibility to Party B's decoration and its consequences. Party B shall guarantee that its decoration and other facilities for its own addition are safe and will not cause any potential safety hazard for the House or its users. Party B shall assume complete legal, technical and economic responsibility for its own decoration and its consequences.

7-5 Party A shall have the right to request Party B immediately to take all necessary measures to solve such safety problems if Party A finds any potential safety hazard caused by Party B's decoration and attachment actions during and after the lease and whether or not Party A agrees to such decoration and attachment plan, until Party A unilaterally lift the lease. Party B entrusts the contractor to renovate the house. If it is not the cause of Party A, which violates the laws and regulations of China, and the relevant provisions of construction, fire control and safety management, or causes property damage, Party B and the contractor shall take the responsibility.

#### 8. Enter and Check

8-1 During the lease, in order to ensure that the house and its ancillary facilities are properly accessible and safe, Party A and / or the management company shall have the right to send staff to enter the house for reasonable inspection, maintenance and repair, but Party A and / or the management company shall notify Party B at least 1 working day in advance (except: emergency situation and situation that Party A cannot be foreseen or controlled). Party B should be cooperated with inspection, maintenance and repair, but Party A should minimize the impact on the use of the House by Party B.

8-2 If Party B renounces the right of renewal, or terminates this contract prematurely according to the Contract, or Party A and Party B fail to agree on whether to renew or not, Party B agrees that Party A has the right to accompany the interested subsequent tenants to visit the House within the time agreed upon by both parties within 6 months prior to the termination, but Party A should give advanced notice to Party B.

## 9. Sublet, Mix, Transfer and Exchange

- 9-1 Without the prior written consent of Party A, Party B shall not sublet part or whole of the House to any third party in any form (including but not limited to contracting, pooling affiliates, establishing affiliates, etc.) during the rental term, or mixed-use the House with any third party, or transfer the House to others for rent, or exchange with others.
- 9-2 If Party B sublets part or whole of the House to any third party during the rental term, or uses it in combination with any third party, or transfers the House to others for rent, or exchanges with other people's rented houses in accordance with a separate written agreement between Party A and Party B, Party B shall still be liable for the behavior of actual user of the House and the consequences during the rental term.

## 10. Priority Renewal Rights

- 10- If the lease of the Contract expires and Party B needs to continue leasing the House, Party B shall submit a written request for renewal to Party A at least  
1 four months before the expiry of the rental term of the Contract, and re-sign the rental contract with the consent of Party A. Under the same conditions, Party B shall enjoy the priority of renewal of the whole of the House, except as otherwise stipulated by laws and regulations. If Party B submits to Party A only a written request for renewal of the part of the House, Party B will not enjoy the priority of renewal. If Party B lately requests for the renewal of a written request, it shall be deemed that Party B renounces the priority of renewal.
- 10- After Party A agrees with Party B's renewal and renewal conditions, both parties shall conclude a rental contract for the renewal of the House 3 months  
2 before the expiry date of the Contract. If Party B fails to sign the renewal contract with Party A overdue, it shall be deemed that Party B renounces the priority of renewal. The renewal rent is determined according to the renewal contract.

## 11. Return

- 11-1 Party B shall return the House to Party A no later than the expiry date of the lease or the date on which the Contract is terminated prematurely.
- 11-2 Before Party B returns the House to Party A, Party B shall clean the House so that the House is in good condition and can be rented. The House which is returned by Party B shall be in conformity with the condition when the house was delivered (that is, it meets the requirements of Annex II and / or other supplementary agreements). When the House is returned, it should be checked by Party A or / and the property management company entrusted by Party A and the expenses should be settled.

11-3 Party B may retain the status quo of the House's decoration if it has the written consent of Party A (permit that Party B may produce some natural wear and tear due to normal use) and move out of the House (hereinafter referred to as "move out of the House"), otherwise, it should be reinstated. If Party A shall agree in writing before Party B can retain the status quo of the House's decoration, Party A shall have no obligation to make any compensation or compensation for Party B's construction or renovation of the House and its decoration and facilities. If the Contract is terminated early due to Party A's reason or because Party A breaches the Contract, Party B has no obligation to restore the status quo ante, and the House will be returned according to the current status.

11-4 If Party B fails to return the house to Party A without the written consent of Party A or does not reach an agreement in writing with Party A on renewing the term, Party B shall pay the overdue liquidated damages of the House which is 3 times the rent to Party A, and shall bear all the energy, equipment, property management fees and all other expenses stipulated in the Contract during the period of occupation of the House. In addition, if Party B fails to return the house to Party A 15 days after the expiry date of the lease or the early termination date of the Contract, Party A has the right to release the house after written notice to Party B, Party A can (but does not have the obligation to) deposit it locally or expeditiously and Party A has the right to collect the custody fee and removal fee from Party B in respect of the objects and has the right to sell, transfer, discard or other ways which Party A deems it appropriate, and use the proceeds (if any) for any payment that Party B owes Party A and for any loss. In case of insufficient payment and compensation, Party A shall have the right to recover the balance from Party B.

## 12. Exemption for Party A

12- During the rental term, when Party B occupies the House and its ancillary facilities, public facilities, if Party B causes any loss of property, damage and personal injury caused by any of the following circumstances, Party B hereby agree, not because of Party A's intention or gross negligence, Party A does not bear any responsibility:

- (1) Any loss or damage due to expropriation, acquisition, confiscation, nationalization or any force majeure caused by state or government agencies;

- (2) Any loss or damage caused by theft, robbery and other criminal cases;
- (3) No water, electricity, telephone, fax, air-conditioning and other services to the House at any time or any public facilities in the House, including the planned maintenance and inspection of public facilities by a third party entrusted by Party A, are not operated and it is not due to Party A's reasons;
- (4) Party B's losses and damages caused by other lessees or third parties;
- (5) Party B's losses and damages which is not caused by Party A's intentional or gross negligence (Party A and / or the security guards and watchman's security services provided to the House do not constitute Party A's liability to the House, personnel, and property).

### 13. Breach of the Contract and Liability for Breach of Contract

#### 13- Party A's default

1

- (1) Party A shall compensate for the loss of Party B due to Party A's transfer of property right caused by Party A's setting up a new mortgage to the House during the rental term as stipulated in this contract.
- (2) During the rental term, Party A fails to perform the repair and maintenance responsibilities as stipulated in the Contract in time, resulting in damage to the House or property, or personal injury to Party B's personnel, sub-contractors, agents, employees, and decorators due to the structural problems of the House, Party A should be responsible for compensation.
- (3) During the rental term, except the exempt situation regulated by the Contract, laws or regulations, if Party A decides to terminate this contract or take the House back early without authorization, Party A should give a written notice to Party B 6 months early. In this case, in addition to returning the deposit to Party B, Party A should also pay liquidated damages which is amount to the monthly rent at that time to Party B. If Party A informs Party B 3 months early but less than 6 months, Party A should pay liquidated damages which is twice the monthly rent at that time to Party B. If Party A does not inform Party B 3 months early, Party A should pay liquidated damages which is triple the monthly rent at that time to Party B.

13- Party B's default

2

- (1) If Party B overdue payment of rent, deposit, equipment rental fee, energy consumption fee, property management fee or other relevant expenses payable, Party B shall pay overdue fine which is 0.3% of the amount of overdue payment per day. If overdue 30 days, Party A has the right to interrupt the water, electricity and other energy supply, until Party B pays all the expenses. And Party B should bear the cost of re-connection.
- (2) If Party B fails to obtain the written consent of Party A to renovates the House or additional facilities beyond the written consent of Party A, Party A has the right to request Party B to restore the original state of the House. Party B shall be responsible for indemnification if Party B causes irreparable damage to the House or Party A suffers losses (including but not limited to fines, damages, etc.) due to the aforesaid acts of Party B.
- (3) Party B or any person expressly or implicitly authorized by Party B to enter the House or parking space shall be regarded as Party B's act. If such act causes damage or loss of personal or property to Party A or building, Party B shall jointly and severally liable for compensation.
- (4) During the rental term, except the exempt situation regulated by the Contract, if Party B decides to terminate this contract early without authorization and Party B gives a written notice to Party A 3 months early, Party B should pay liquidated damages which is amount to the monthly rent at that time to Party A. If Party B does not inform Party A 3 months early, Party B should pay liquidated damages which is triple the monthly rent at that time to Party A. Party A may deduct the above liquidated damages from the remaining balance of the rental deposit that Party B has already paid, and the insufficient part will be delivered separately by Party B.

Retirement refers to the behavior that Party B decides to terminate the lease relationship early for its own reasons, limited to a written statement.

- (5) If Party B registers the House as its domicile, and Party B fails to complete the registration of alteration or cancellation within 30 days from the date of termination of the tenancy or provide the copy of certificate of registration to Party A for the record, Party B shall pay Party A liquidated damages which is amount to the monthly rent at that time.
- (6) Party A has right to request Party B to compensate Party A for the losses suffered thereby, if Party B takes the following actions:
  - (1) Intentional or negligent act of Party B and its employees and contractors on any part of the building or the House;

- (2) Party B violates or fails to comply with any applicable provisions of the Contract;
- (3) Party B, its employees and other acts of the contractor will affect the normal operation and management of the building by Party A and the property management company unless Party B provides reasonable explanations within 24 hours after receiving the written notice from Party A.

#### 14. The Force Majeure

- 14- If either the Property or any part of the Building is destroyed or is not suitable for research and development and office during the lease period due to Force Majeure, either party shall be entitled to notify the other in writing of the termination of the Contract, and neither party shall pursue the default responsibility. The Contract is terminated from the day when notice is given by either party. Party A should return Party B the remaining rental deposit, rental after the force majeure, and other expenses that Party B has prepaid within 10 working days from the date of termination of the Contract after deducting the relevant expenses according to Clause 13 of the Contract without interest, as long as Party B pays all the expenses payable by Party B before the force majeure which is regulated by the Contract and the supplementary agreements.
- 14- The above "force majeure" means any unforeseen event beyond the reasonable control of one party and which is unavoidable despite reasonable care is given by the party, including but not limited to, earthquake, typhoon, plague, flood, fire, storms, tidal waves or other natural disasters, declared or undeclared war, riots and so on.

#### 15. Terminate the Contract

- 15- Both Parties agree that one party may be written notice to the other party to terminate the Contract under the following situations, and the party breaching the Contract shall pay liquidated damages which is triple the monthly rent at that time to the other party. If the party breaching the Contract also cause damages to the other party, and if the liquidated damages are insufficient to meet the damages, the balance still needs to be made up.

- (1) Party A fails to deliver the House on time and still cannot deliver the House 30 days after the written notice from Party B;
- (2) The house delivered by Party A does not meet the contract stipulated in Annex II of the Contract, resulting in the failure to realize the purpose of the lease; or the House delivered by Party A is defective and endangers the safety of Party B;
- (3) Party B fails to obtain the written consent of Party A to change the use of the House;
- (4) Party B causes damage to the main structure of the House or other irreparable damage;
- (5) Party B, without the written consent of Party A and the approval of the relevant department, arbitrarily changed the nature of the production and use involved in the property planning;
- (6) Party B fails to obtain the written consent of Party A and permission from the safety production supervision, fire control and other relevant departments to add or modify special equipment or to produce, manage, transport, store, use or dispose of hazardous chemicals;
- (7) Party B renders part or all of the House to any third party without authorization, or uses it in combination with any third party, or transfers the House to others for rent or exchanges with other people's houses;
- (8) Party B has not paid the rent over 30 days, and still cannot pay the rent 30 days after the written notice from Party A.

15- Due to the breach of item (8) of the preceding paragraph, the Party A has the right to retain all the articles in the House until Party B pays all the money  
2 (including the liquidated damages) to Party A.

15- Both Parties agree that the Contract is terminated under the following situations, and neither of them should be responsible for the termination.  
3

- (1) The land use rights within the occupied area of the House are recovered early according to law;
- (2) The House is requisitioned according to law because of public interests;
- (3) The House is included in the scope of the permit for house demolition due to urban construction;
- (4) The House is damaged, lost or has been identified as a dangerous house;
- (5) Party A has informed Party B that the mortgage has been set before the rental, and is now being disposed of.

## 16. Statements and Guarantees

### a) Party A hereby states and guarantees as follows:

- (1) Party A has all the necessary authorizations to formally and effectively sign and perform the Contract and possess all the necessary powers and capabilities to lease the House to Party B in accordance with applicable laws.
- (2) Party A's signing and performance of the Contract shall not constitute a violation of the applicable law or any contract signed by Party A with any third party.
- (3) Party A guarantees that the House has been built and in good condition in accordance with applicable laws (including but not limited to safety and health related laws and regulations) and has legal ownership over it.

### b) Party B hereby states and guarantees as follows:

- (1) Party B has all the necessary authorizations to formally and effectively sign and perform the Contract.
- (2) Party B has legal business qualification. During the renewal of the Contract, Party B will engage in business activities in accordance with the scope of its business license, and its business activities must comply with the relevant provisions of national laws and regulations.
- (3) Party B promises not to disclose any information involved in the Contract to any third party, including but not limited to the rental price. If Party B's behavior leaks any of above mentioned information, Party A reserves the right to retroactively indemnify Party B.

## 17. Safe Production

- 17- Party B shall strictly comply with the safety management code of the park including the Notice on Enterprise Safety Management in Shanghai Pudong Software Park (see Annex III for details) and shall be fully responsible for its own safety management. Party B shall immediately inform Party A in an effective manner once a safety accident has occurred, and provide a written report after the incident, while trying its best to avoid or reduce the casualties or property damage. If the circumstances of the accident are serious and have caused or may cause casualties, Party B shall also directly report to the relevant government department in accordance with the law.

17- During the rental term of the Contract, Party A shall have the right to recourse to Party B and terminate the Contract if Party B produces safety accident  
2 in the area of Shanghai Pudong Software Park. If the safety accidents cause loss of Party A, Party B should compensate Party A.

17- Party B's safety records shall be used as a reference for Party B's priority rights such as renewal and extension of lease (if any).  
3

#### 18. Other Terms

18- The Contract takes effect immediately after both parties have signed and sealed the contract.  
1

18- The unaccomplished matters of the Contract may be concluded by the supplementary agreements or terms between Party A and Party B. The  
2 supplementary agreement, the terms and the supplements to the Contract are an integral part of the Contract. The written words in the Contract and its  
supplementary terms, agreements and the space in the appendix have the same effect as the printed language.

18- When both parties sign the Contract, they shall clearly understand their respective rights, obligations and responsibilities and are willing to fulfill their  
3 obligations strictly according to the Contract. If one party violates the Contract, the other party is entitled to claim according to the Contract.

18- Party A and Party B shall settle their disputes through negotiation during the performance of the Contract. If they fail to reach a consensus through  
4 negotiation, both parties agree to choose the following method (2) to settle in accordance with the laws of the People's Republic of China:

(1) submitted to China International Economic and Trade Arbitration Commission Shanghai Branch for arbitration;

(2) bring a lawsuit to the people's court where the House is located.

18-5 The Contract has four copies with the Annex, and Party A, Party B, the business department, the tax department each hold a copy. All of them have the  
same effect.

18- All fees and taxes related to the registration of the Contract (including but not limited to stamp duty) should be borne by both parties in accordance with  
6 the regulations of the People's Republic of China and Shanghai.

18- Party B is obliged to cooperate with Party A to complete all forms of non-profitable research activities for the purpose of industry research, including but  
7 not limited to questionnaires, interviews with business executives, and collection of economic data. Party A will not disclose any information or data  
provided by Party B for other purpose other than industry research and will not disclose any trade secrets to any third party which is not related to  
industrial research.



Annex II

the existing decoration of the House, ancillary facilities and equipment status, and the decoration and additional facilities which Party A allows Party B to do in writing

Annex III  
Notice of Shanghai Pudong Software Park Park Enterprise Security Management

According to Production Safety Law of the People's Republic of China, Regulations on the Reporting, Investigation and Handling of Work Safety Accidents, Regulations on Production Safety of Shanghai, for further strengthen the security management of Shanghai Pudong Software Park, effectively protect the life of the park personnel and property safety, we will inform about the safety management in the park as follows:

1. Safety Management Responsibilities of Companies in the Park

The company in the park should be responsible for the work of safety management, including the area that the company leased, in the process of working, employee's safety management during working or work-related experiences, and take the responsibility.

1. The park enterprise assigns the safety commissioner as the first safety liaison and is in charge of the safety work in the leased area and liaises with Shanghai Pudong Software Park Co., Ltd. (hereinafter referred to as "Pu soft"). If there is a change of position in the safety commissioner, the job successor automatically becomes the first safety liaison or the park shall assign another person and informed in writing to Pu Soft.
2. Strictly abide by the laws, regulations and rules related to safety and possess the qualifications and conditions for safety production required for the operation of the business and industry.
3. Pursuant to the written approval by Pu soft company, if a company can sublease or sublet the office, it shall conclude a safety management agreement with the sub-tenant on the basis of the contents of this circular with a clear emphasis on safety responsibilities and management requirements.

2. Safety Requirements of Daily Operation

1. Establish safety management rules and systems with safety responsibility system as the core. Strengthen safety education and management of suppliers. Enhance daily education and training of employees in safety work. Provide safety management personnel and equipment. In accordance with the relevant regulations and establish safety standards emergency rescue and evacuation plan.
2. The renovations within the scope of renter and equipment installation should comply with the relevant provisions, norms and standards of safety and fire safety. According to national and local regulations, construction and equipment installation needs to be reviewed and accepted.
3. The facilities and equipment must pass inspection, tests and acceptance, and should be operated by trained and qualified people. Those people who are engaged in special operations must have the appropriate qualifications. The equipment and operations personnel should be reviewed annually in accordance with related regulations.

4. Don't produce, store toxic, harmful, flammable, explosive materials.
  5. Loading and unloading of goods in the designated area, do a good job of on-site safety supervision and support.
  6. It is strictly forbidden to lodge staff in the office area of Shanghai Pudong Software Park.
  7. The risk of accidents or insecurity should be self-examination and timely rectification. Cooperate with Pu soft company and the property management unit for safety inspection and rectification.
3. Requirements of Fire Safety
1. Actively involved in the fire drill and cooperate with Pu soft company and property management units.
  2. Equip fire extinguisher in line with the provisions in their own rented area. Set in line with the provisions of the requirements, identify the obvious emergency evacuation diagram. Always keep the evacuation routes and entrances and exits open.
  3. Smoking is strictly forbidden in non-smoking areas. It is forbidden to use open flame in violation of regulation.
  4. It is forbidden to block, close, occupy the evacuation routes and entrances and exits.
4. Requirements of Security and Traffic Safety
1. Improve staff's awareness of personal safety, property safety and traffic safety. Properly store their valuables such as cash and securities, and set up more reliable safety precautions to prevent theft.
  2. The motor vehicles owned by their employees or their employees' relatives shall strictly follow the traffic lights' instruction and traffic signs' instruction to drive. Parking in the line with norms and regulations.

If any unexpected incident or accident occurs, including but not limited to safety production, anti-crime, traffic or public security, it shall be reported to Pu soft as soon as possible. In the case of emergencies, it shall be reported directly to the police, fire department, rescue department and other departments immediately, afterwards be reported to Pu soft company.

## Rental Contract for Shanghai Pudong Software Park Guo Shoujing Park

Contract No.ZL (N) 20180016

Both parties to this contract:

Party A (Lessor): Shanghai Pudong Software Park Co., Ltd.

Party B (Lessee): ChinaLink Professional Services Co., Ltd.

According to **Contract Law of the People's Republic of China** and **Regulations of Shanghai Municipality on House Leasing**, both parties conclude the contract on the basis of equality, voluntariness, fairness, honesty and credibility, for consenting that Party B should lease the house that Party A can lease according to law.

Section 1.

- 1-1 The house which is rented to Party B by Party A is located in Room 18101/18102/18103/18104, Building 18, Guo Shoujing Road No.498, Zhang Jiang High Tech Park, Pudong, Shanghai (hereinafter referred to as "the House"). The building area of the House is 914.62 square meters. The House should be used for research and development and office. The structure of the House is reinforced concrete structure. The plan of the house is shown in Annex I of this contract.
  - 1-2 Party A establishes a leasing relationship with Party B as the real estate owner of the House. Party A has told Party B and Party B has fully known that the House has been mortgaged before the contract is signed.
  - 1-3 The following (if any) is shown in Annex II and/or supplementary agreements of the Contract: the scope of use, conditions and requirements of public or shared parts of the House, the existing decoration of the House, ancillary facilities and equipment status, and the contents, standards, related matters of the decoration and additional facilities which Party A allows Party B to do in writing. Both parties agree that all attachments and supplementary agreements should be a basis for acceptance of housing delivery and return when the Contract is terminated or released.
  - 1-4 When the Contract is signed, the House has accepted and used by Party B, and Party B confirm that the House can fit the purpose and acquirement of rental at the beginning of the tenancy term. On the basis of Party B's occupancy of the House, Party A does not have to perform any further duty to deliver the House to Party B.
-

## 2. Rental Purposes

- 2-1 Party B has fully known the House's properties and uses and Party B promises to Party A that the House will only be used for research and development and office and Party B will abide by the state and the city regulations on the use of housing and property management.
- 2-2 Party B promises that the above-mentioned purpose of the use will not be changed during the rental term unless such change gets Party A's written consent and is approved by the relevant departments according to relative regulations.

## 3. Lease Term

- 3-1 The lease term is from January 1<sup>st</sup>, 2019 (hereinafter referred to as "lease date") to December 31<sup>st</sup>, 2020 (hereinafter referred to as "terminal date"). The rent will be counted from February 15<sup>th</sup>, 2019 (hereinafter referred to as "rent date") to terminal date.
- 3-2 The delivery date of the house is January 1, 2019.
- 3-3 Party A shall inform Party B of the acceptance and handover of the house at least one day in advance and no later than the delivery date. Party B shall send representatives to jointly inspect and accept the house with Party A and or the property management company entrusted by Party A according to the time notified by Party A. After the acceptance, Party B shall sign a written House acceptance handover letter to show that Party A has delivered the house to Party B.

If the house and its ancillary facilities do not meet the delivery standard agreed in this contract after both parties check, Party A shall correct it within 3 days or within a reasonable period agreed by both parties to meet the delivery standard, and inform Party B and Party A to jointly check and accept the house again. After the re acceptance, Party B shall sign a written "House acceptance handover letter" to show that Party A has delivered the house to Party B.

If the House fails to be delivered to Party B due to Party A's reasons, Party A shall postpone Party B's starting date of the lease as of the date specified in article 3-1, and the new starting date shall be calculated from the actual delivery date. If the house is delayed in delivery for more than 10 working days due to Party A's reasons, Party A shall pay 10% of the daily rent of the house to Party B as liquidated damages for each day of delayed delivery from the 11th working day after the lease starting date of article 3-1, and the lease starting date of Party B shall be postponed. The new lease starting date shall be calculated from the actual delivery date. If the starting date of rent is postponed in accordance with this clause, the starting date of rent shall be postponed accordingly. If the above-mentioned breach of contract by Party A lasts for more than 30 days, Party B has the right to terminate this contract.

3-4 Party B shall handle the relevant handover procedures of the leased house no later than the delivery date. Party B's delay in handling the handover procedures does not affect the rent payable by Party B from the date of rent payment and other expenses that shall be borne by Party B. If Party B fails to complete the relevant handover procedures within 30 days after the delivery date agreed in this contract due to Party B's reasons, Party A has the right to terminate this contract.

#### 4. Rent and Payment Methods

4-1 Both Parties agree that the unit rental price is counted according to the daily construction area per square meter.

Within the lease term agreed in this contract, the rent free period is from January 1, 2019 to February 14, 2019.

From February 15<sup>th</sup>, 2019 to December 31<sup>st</sup>, 2019, the unit rental price is RMB 3.85 yuan (US\$0.55).

From January 1<sup>st</sup>, 2020 to December 31<sup>st</sup>, 2020, the unit rental price is RMB 3.97 yuan (US\$0.56).

(The above unit rental prices are tax-inclusive prices)

4-2 Party B should pay the rent for the first month no later than the rent date. The days for calculating the rent for the first month is started from the rent date to the last day of the month. The monthly rent will be calculated and paid according to the calendar days of the month (the monthly rent calculation formula is: housing construction area  $\times$  unit rental price  $\times$  the calendar days of the month. The monthly rental amount is rounded to one decimal place). Party B should pay the rent to Party A before the 10<sup>th</sup> of each month (in case of national legal holidays postponed to the next working day). The last month's rent should be calculated from the first day of last month to the terminal day. If the days of the last month are less than 10, the last month's rent should be paid before the terminal date. If the days of the last month are not less than 10, the last month's rent should be paid before the 10<sup>th</sup> day of the month (in case of national legal holidays postponed to the next working day). Party A should issue the corresponding rental invoice to Party B within 3 working days after receiving the rent of the month.

4-3 Party A should issue the corresponding rental invoice to Party B within 3 working days after receiving the rent of the month. In the term of the Contract, if the invoice type or tax rate changes due to the change of taxation policies of the state and government, Party B agrees to adjust the price of rent and deposit according to the latest tax rate during the remaining lease. At that time, Party A will give Party B a formal notice, and both Parties should sign up supplementary agreements.

4-4 Party B pays the rent to Party A's following account by check or transfer:

**Shanghai Pudong Software Park Co., Ltd.**

[ ]

4-5 The rent is denominated and settled in RMB. In any case that the rent needs to be denominated and settled in other currency (the currency should be accepted by Chinese banks and convertible into RMB), the actual amount of RMB exchanged by the bank designated by Party A shall prevail. Relevant fees due to the payment (such as bank charges) should be borne by Party B.

4-6 Party A may entrust a property management company to assist in collecting the rent.

#### 5. Rental Deposit and Other Fees

5-1 Both Parties agree that Party B shall pay rental deposit to Party A within 5 working days after signing the Contract. The amount of the deposit is equivalent to the rent for the three months (90 days) of the highest unit price within the lease term, which is RMB326,794.00 (US\$46,255) yuan. Party A shall issue a receipt to Party B after receiving the deposit. If Party B fails to pay the lease deposit in full to Party A in accordance with the provisions of this contract, Party B shall pay Party A late payment fee of 0.3% of the outstanding amount per day, until the full payment is completed. If Party B delays or fails to pay more than 15 working days, Party A has the right to rescind the contract.

During the term of this contract, Party B shall, due to breach of contract, pay liquidated damages and/or damages to Party A in accordance with the provisions of this contract, and Party B shall separately pay Party A liquidated damages and/or damages, and shall not have the right to request Party A to deduct from the above deposit. Party A shall have the right (without any obligation) to deduct such liquidated damages and / or damages from Party B's rental deposit and notify Party B in writing of the amount of the deduction and margin supplement. Party B should pay Party A to complement the margin within 5 working days after accepting the notice from Party A.

Within 10 working days after the termination of the lease, Party A will refund Party B the balance of deposit to offset the fees (with no interest) which Party B should bear under the Contract (including but not limited to the monthly rent payable by Party B, property management fees, energy consumption, Party B's liquidated damages and / or compensation for damages). However, if Party B uses the House for the registration of Party B's residence, Party B shall, within 30 days from the date of the termination of the lease, complete the cancellation or alteration registration, and deliver the copy of the registration approval to Party A for record. Party A shall return the lease deposit to Party B according to the above term after that.

5-2 Besides the house rent and property management fees, Party B shall bear the costs of energy consumption (electricity, water and gas), communication expenses, rental fees for equipment and facilities incurred for its own use. Party A shall install separate meter for Party B's energy consumption and collect the fees from Party B according to the meter reading before transferring it to the offices of utilities. Party A may entrust property management companies to assist in collecting the above fees.

5-3 Both parties agree that the property management company entrusted by Party A (hereinafter referred to as "the management company") is responsible for the property management of the House. At the time of signing the Contract, the management company is Shanghai Puyuan Property Management Co., Ltd., which will be responsible for the property equipment operation, daily management and services of the House. Party B shall pay the property management fee. Party B shall sign the Property Management Agreement with the property management company prior to the transfer of the House. Property management fee and payment method of the House shall be implemented in accordance with the Property Management Agreement signed by Party B and the property management company.

## 6. Housing Requirements and Maintenance Responsibilities

- 6-1 During the rental term, Party A promises that the House and its ancillary public facilities would be in normal usable and safe condition. If Party B finds that there is any damage or malfunction of the House or its ancillary public facilities (other than Party B's decoration and equipment), Party B shall notice Party A and / or the management company to repair. Party A and / or the management company shall conduct inspection or repair in 48 hours after receiving the written notice from Party B and repair it within the period agreed on by both parties or within a reasonable period. If Party A shall assume the responsibility for maintenance but Party A fails to repair it overdue, Party B may take the maintenance for it and reasonable maintenance expenses shall be borne by Party A.
- 6-2 During the rental term, Party B shall fair use and take good care of the House and its affiliated public facilities, and take various preventive measures to make the House safe from rain, wind or other natural causes. Party B shall assume maintenance responsibility for the improper or unreasonable use of Party B which results in the damage or failure of the House and its affiliated public facilities. If Party B refuses to assume responsibility for maintenance, Party A can take the maintenance on behalf of Party B, and reasonable maintenance costs borne by Party B. The maintenance of non-public facilities which is owned by Party B can be entrusted to the property management companies, and maintenance costs borne by Party B.
- 6-3 Party B shall strictly follow the applicable laws, regulations, rules and regulations of China and use the House in accordance with the contractual purposes, especially not to use the House in any unreasonable or unethical way. Party B will not use the House in any way that invalidates or increases the risk of insurance. Party B shall ensure that the business activities engaged in using the House have obtained the business license issued by the government administration for industry and commerce and guarantee that legal registration and permission shall be kept throughout the lease period.
- 6-4 During the rental term, Party A reserves the right to publish or authorize others to advertise, improve or add public facilities in other proper places where is not exclusively for Party B. Party A shall not affect Party B's normal use of the House and Party B's Normal business.

6-5 Party B agrees to guarantee that Party A and / or Party A's personnel shall be exempt from Party B's personal injury and / or property damage, and Party A and Party A's personnel shall also be exempt from the third party's claims and litigation caused by Party B.

#### 7. Decoration and Accretion

7-1 Party B shall be responsible for the second decoration of the House. Party B's decoration plan (including marking on the building facade or roof or other public parts of the House) shall be subject to Party A's approval and Party A's written consent. Party B shall not, without prior written consent of Party A, carry out any unauthorized activities or allow any other person to carry out any unauthorized alteration or addition of the House and its decoration, ancillary facilities and equipment (including but not limited to trunk lines, drainage, firefighting, indoor and outdoor appearances and existing installations). If such decoration needs the approval of the government department, Party B shall obtain the approval before construction.

7-2 During renovating the House, Party B shall not damage the building's facade or carry out any internal structural alterations that may affect the service life and safety of the House, including but not limited to the demolition and alteration of the bearing beam walls. If Party B needs to change the structure of the house or modify the ancillary facilities and equipment of the house, etc., in addition to the written consent of Party A, Party B shall pay the structural restoration fee deposit in accordance with the "Relevant Charges for Second Renovation of Leased Office of Shanghai Pudong Software Park", otherwise Party B shall not carry out construction.

7-3 During the rental term, the decoration belongs to Party B, and its responsibility for maintenance is also borne by Party B, unless the Parties agree otherwise. After the expiry of the rental term (including any early termination of the Contract attributable to Party B), Party B is obliged to remove the decoration extras and restore the house to the pre-lease status (except for natural losses). If Party B does not move on schedule, Party A can take the behalf of the removal, and the cost borne by Party B or deducted the cost from the deposit unless Party A agrees that Party B shall retain decoration remnants when returning the house.

7-4 Party A's written consent to the decoration of Party B shall not be construed as Party A's obligation or responsibility to Party B's decoration and its consequences. Party B shall guarantee that its decoration and other facilities for its own addition are safe and will not cause any potential safety hazard for the House or its users. Party B shall assume complete legal, technical and economic responsibility for its own decoration and its consequences.

7-5 Party A shall have the right to request Party B immediately to take all necessary measures to solve such safety problems if Party A finds any potential safety hazard caused by Party B's decoration and attachment actions during and after the lease and whether or not Party A agrees to such decoration and attachment plan, until Party A unilaterally lift the lease. Party B entrusts the contractor to renovate the house. If it is not the cause of Party A, which violates the laws and regulations of China, and the relevant provisions of construction, fire control and safety management, or causes property damage, Party B and the contractor shall take the responsibility.

#### 8. Enter and Check

8-1 During the lease, in order to ensure that the house and its ancillary facilities are properly accessible and safe, Party A and / or the management company shall have the right to send staff to enter the house for reasonable inspection, maintenance and repair, but Party A and / or the management company shall notify Party B at least 1 working day in advance (except: emergency situation and situation that Party A cannot be foreseen or controlled). Party B should be cooperated with inspection, maintenance and repair, but Party A should minimize the impact on the use of the House by Party B.

8-2 If Party B renounces the right of renewal, or terminates this contract prematurely according to the Contract, or Party A and Party B fail to agree on whether to renew or not, Party B agrees that Party A has the right to accompany the interested subsequent tenants to visit the House within the time agreed upon by both parties within 6 months prior to the termination, but Party A should give advanced notice to Party B.

## 9. Sublet, Mix, Transfer and Exchange

- 9-1 Without the prior written consent of Party A, Party B shall not sublet part or whole of the House to any third party in any form (including but not limited to contracting, pooling affiliates, establishing affiliates, etc.) during the rental term, or mixed-use the House with any third party, or transfer the House to others for rent, or exchange with others.
- 9-2 If Party B sublets part or whole of the House to any third party during the rental term, or uses it in combination with any third party, or transfers the House to others for rent, or exchanges with other people's rented houses in accordance with a separate written agreement between Party A and Party B, Party B shall still be liable for the behavior of actual user of the House and the consequences during the rental term.

## 10. Priority Renewal Rights

- 10- If the lease of the Contract expires and Party B needs to continue leasing the House, Party B shall submit a written request for renewal to Party A at least  
1 four months before the expiry of the rental term of the Contract, and re-sign the rental contract with the consent of Party A. Under the same conditions, Party B shall enjoy the priority of renewal of the whole of the House, except as otherwise stipulated by laws and regulations. If Party B submits to Party A only a written request for renewal of the part of the House, Party B will not enjoy the priority of renewal. If Party B lately requests for the renewal of a written request, it shall be deemed that Party B renounces the priority of renewal.
- 10- After Party A agrees with Party B's renewal and renewal conditions, both parties shall conclude a rental contract for the renewal of the House 3 months  
2 before the expiry date of the Contract. If Party B fails to sign the renewal contract with Party A overdue, it shall be deemed that Party B renounces the priority of renewal. The renewal rent is determined according to the renewal contract.

## 11. Return

- 11-1 Party B shall return the House to Party A no later than the expiry date of the lease or the date on which the Contract is terminated prematurely.
- 11-2 Before Party B returns the House to Party A, Party B shall clean the House so that the House is in good condition and can be rented. The House which is returned by Party B shall be in conformity with the condition when the house was delivered (that is, it meets the requirements of Annex II and / or other supplementary agreements). When the House is returned, it should be checked by Party A or / and the property management company entrusted by Party A and the expenses should be settled.

11-3 Party B may retain the status quo of the House's decoration if it has the written consent of Party A (permit that Party B may produce some natural wear and tear due to normal use) and move out of the House (hereinafter referred to as "move out of the House"), otherwise, it should be reinstated. If Party A shall agree in writing before Party B can retain the status quo of the House's decoration, Party A shall have no obligation to make any compensation or compensation for Party B's construction or renovation of the House and its decoration and facilities. If the Contract is terminated early due to Party A's reason or because Party A breaches the Contract, Party B has no obligation to restore the status quo ante, and the House will be returned according to the current status.

11-4 If Party B fails to return the house to Party A without the written consent of Party A or does not reach an agreement in writing with Party A on renewing the term, Party B shall pay the overdue liquidated damages of the House which is 3 times the rent to Party A, and shall bear all the energy, equipment, property management fees and all other expenses stipulated in the Contract during the period of occupation of the House. In addition, if Party B fails to return the house to Party A 15 days after the expiry date of the lease or the early termination date of the Contract, Party A has the right to release the house after written notice to Party B, Party A can (but does not have the obligation to) deposit it locally or expeditiously and Party A has the right to collect the custody fee and removal fee from Party B in respect of the objects and has the right to sell, transfer, discard or other ways which Party A deems it appropriate, and use the proceeds (if any) for any payment that Party B owes Party A and for any loss. In case of insufficient payment and compensation, Party A shall have the right to recover the balance from Party B.

## 12. Exemption for Party A

12-1 During the rental term, when Party B occupies the House and its ancillary facilities, public facilities, if Party B causes any loss of property, damage and personal injury caused by any of the following circumstances, Party B hereby agree, not because of Party A's intention or gross negligence, Party A does not bear any responsibility:

- (1) Any loss or damage due to expropriation, acquisition, confiscation, nationalization or any force majeure caused by state or government agencies;

- (2) Any loss or damage caused by theft, robbery and other criminal cases;
- (3) No water, electricity, telephone, fax, air-conditioning and other services to the House at any time or any public facilities in the House, including the planned maintenance and inspection of public facilities by a third party entrusted by Party A, are not operated and it is not due to Party A's reasons;
- (4) Party B's losses and damages caused by other lessees or third parties;
- (5) Party B's losses and damages which is not caused by Party A's intentional or gross negligence (Party A and / or the security guards and watchman's security services provided to the House do not constitute Party A's liability to the House, personnel, and property).

### 13. Breach of the Contract and Liability for Breach of Contract

#### 13-1 Party A's default

- (1) Party A shall compensate for the loss of Party B due to Party A's transfer of property right caused by Party A's setting up a new mortgage to the House during the rental term as stipulated in this contract.
- (2) During the rental term, Party A fails to perform the repair and maintenance responsibilities as stipulated in the Contract in time, resulting in damage to the House or property, or personal injury to Party B's personnel, sub-contractors, agents, employees, and decorators due to the structural problems of the House, Party A should be responsible for compensation.
- (3) During the rental term, except the exempt situation regulated by the Contract, laws or regulations, if Party A decides to terminate this contract or take the House back early without authorization, Party A should give a written notice to Party B 6 months early. In this case, in addition to returning the deposit to Party B, Party A should also pay liquidated damages which is amount to the monthly rent at that time to Party B. If Party A informs Party B 3 months early but less than 6 months, Party A should pay liquidated damages which is twice the monthly rent at that time to Party B. If Party A does not inform Party B 3 months early, Party A should pay liquidated damages which is triple the monthly rent at that time to Party B.

13- Party B's default

2

- (1) If Party B overdue payment of rent, deposit, equipment rental fee, energy consumption fee, property management fee or other relevant expenses payable, Party B shall pay overdue fine which is 0.3% of the amount of overdue payment per day. If overdue 30 days, Party A has the right to interrupt the water, electricity and other energy supply, until Party B pays all the expenses. And Party B should bear the cost of re-connection.
- (2) If Party B fails to obtain the written consent of Party A to renovates the House or additional facilities beyond the written consent of Party A, Party A has the right to request Party B to restore the original state of the House. Party B shall be responsible for indemnification if Party B causes irreparable damage to the House or Party A suffers losses (including but not limited to fines, damages, etc.) due to the aforesaid acts of Party B.
- (3) Party B or any person expressly or implicitly authorized by Party B to enter the House or parking space shall be regarded as Party B's act. If such act causes damage or loss of personal or property to Party A or building, Party B shall jointly and severally liable for compensation.
- (4) During the rental term, except the exempt situation regulated by the Contract, if Party B decides to terminate this contract early without authorization and Party B gives a written notice to Party A 3 months early, Party B should pay liquidated damages which is amount to the monthly rent at that time to Party A. If Party B does not inform Party A 3 months early, Party B should pay liquidated damages which is triple the monthly rent at that time to Party A. Party A may deduct the above liquidated damages from the remaining balance of the rental deposit that Party B has already paid, and the insufficient part will be delivered separately by Party B.

Retirement refers to the behavior that Party B decides to terminate the lease relationship early for its own reasons, limited to a written statement.

- (5) If Party B registers the House as its domicile, and Party B fails to complete the registration of alteration or cancellation within 30 days from the date of termination of the tenancy or provide the copy of certificate of registration to Party A for the record, Party B shall pay Party A liquidated damages which is amount to the monthly rent at that time.
- (6) Party A has right to request Party B to compensate Party A for the losses suffered thereby, if Party B takes the following actions:

- (1) Intentional or negligent act of Party B and its employees and contractors on any part of the building or the House;

- (2) Party B violates or fails to comply with any applicable provisions of the Contract;
- (3) Party B, its employees and other acts of the contractor will affect the normal operation and management of the building by Party A and the property management company unless Party B provides reasonable explanations within 24 hours after receiving the written notice from Party A.

#### 14. The Force Majeure

- 14- If either the Property or any part of the Building is destroyed or is not suitable for research and development and office during the lease period due to Force Majeure, either party shall be entitled to notify the other in writing of the termination of the Contract, and neither party shall pursue the default responsibility. The Contract is terminated from the day when notice is given by either party. Party A should return Party B the remaining rental deposit, rental after the force majeure, and other expenses that Party B has prepaid within 10 working days from the date of termination of the Contract after deducting the relevant expenses according to Clause 13 of the Contract without interest, as long as Party B pays all the expenses payable by Party B before the force majeure which is regulated by the Contract and the supplementary agreements.
- 14- The above “force majeure” means any unforeseen event beyond the reasonable control of one party and which is unavoidable despite reasonable care is given by the party, including but not limited to, earthquake, typhoon, plague, flood, fire, storms, tidal waves or other natural disasters, declared or undeclared war, riots and so on.

#### 15. Terminate the Contract

- 15- Both Parties agree that one party may be written notice to the other party to terminate the Contract under the following situations, and the party breaching the Contract shall pay liquidated damages which is triple the monthly rent at that time to the other party. If the party breaching the Contract also cause damages to the other party, and if the liquidated damages are insufficient to meet the damages, the balance still needs to be made up.

- (1) Party A fails to deliver the House on time and still cannot deliver the House 30 days after the written notice from Party B;
- (2) The house delivered by Party A does not meet the contract stipulated in Annex II of the Contract, resulting in the failure to realize the purpose of the lease; or the House delivered by Party A is defective and endangers the safety of Party B;
- (3) Party B fails to obtain the written consent of Party A to change the use of the House;
- (4) Party B causes damage to the main structure of the House or other irreparable damage;
- (5) Party B, without the written consent of Party A and the approval of the relevant department, arbitrarily changed the nature of the production and use involved in the property planning;
- (6) Party B fails to obtain the written consent of Party A and permission from the safety production supervision, fire control and other relevant departments to add or modify special equipment or to produce, manage, transport, store, use or dispose of hazardous chemicals;
- (7) Party B renders part or all of the House to any third party without authorization, or uses it in combination with any third party, or transfers the House to others for rent or exchanges with other people's houses;
- (8) Party B has not paid the rent over 30 days, and still cannot pay the rent 30 days after the written notice from Party A.

15- Due to the breach of item (8) of the preceding paragraph, the Party A has the right to retain all the articles in the House until Party B pays all the money  
2 (including the liquidated damages) to Party A.

15- Both Parties agree that the Contract is terminated under the following situations, and neither of them should be responsible for the termination.

3

- (1) The land use rights within the occupied area of the House are recovered early according to law;
- (2) The House is requisitioned according to law because of public interests;
- (3) The House is included in the scope of the permit for house demolition due to urban construction;
- (4) The House is damaged, lost or has been identified as a dangerous house;
- (5) Party A has informed Party B that the mortgage has been set before the rental, and is now being disposed of.

## 16. Statements and Guarantees

### a) Party A hereby states and guarantees as follows:

- (1) Party A has all the necessary authorizations to formally and effectively sign and perform the Contract and possess all the necessary powers and capabilities to lease the House to Party B in accordance with applicable laws.
- (2) Party A's signing and performance of the Contract shall not constitute a violation of the applicable law or any contract signed by Party A with any third party.
- (3) Party A guarantees that the House has been built and in good condition in accordance with applicable laws (including but not limited to safety and health related laws and regulations) and has legal ownership over it.

### b) Party B hereby states and guarantees as follows:

- (1) Party B has all the necessary authorizations to formally and effectively sign and perform the Contract.
- (2) Party B has legal business qualification. During the renewal of the Contract, Party B will engage in business activities in accordance with the scope of its business license, and its business activities must comply with the relevant provisions of national laws and regulations.
- (3) Party B promises not to disclose any information involved in the Contract to any third party, including but not limited to the rental price. If Party B's behavior leaks any of above mentioned information, Party A reserves the right to retroactively indemnify Party B.

## 17. Safe Production

- 17- Party B shall strictly comply with the safety management code of the park including the Notice on Enterprise Safety Management in Shanghai Pudong Software Park (see Annex III for details) and shall be fully responsible for its own safety management. Party B shall immediately inform Party A in an effective manner once a safety accident has occurred, and provide a written report after the incident, while trying its best to avoid or reduce the casualties or property damage. If the circumstances of the accident are serious and have caused or may cause casualties, Party B shall also directly report to the relevant government department in accordance with the law.

17- During the rental term of the Contract, Party A shall have the right to recourse to Party B and terminate the Contract if Party B produces safety accident  
2 in the area of Shanghai Pudong Software Park. If the safety accidents cause loss of Party A, Party B should compensate Party A.

17- Party B's safety records shall be used as a reference for Party B's priority rights such as renewal and extension of lease (if any).  
3

#### 18. Other Terms

18- The Contract takes effect immediately after both parties have signed and sealed the contract.  
1

18- The unaccomplished matters of the Contract may be concluded by the supplementary agreements or terms between Party A and Party B. The  
2 supplementary agreement, the terms and the supplements to the Contract are an integral part of the Contract. The written words in the Contract and its  
supplementary terms, agreements and the space in the appendix have the same effect as the printed language.

18- When both parties sign the Contract, they shall clearly understand their respective rights, obligations and responsibilities and are willing to fulfill their  
3 obligations strictly according to the Contract. If one party violates the Contract, the other party is entitled to claim according to the Contract.

18- Party A and Party B shall settle their disputes through negotiation during the performance of the Contract. If they fail to reach a consensus through  
4 negotiation, both parties agree to choose the following method (2) to settle in accordance with the laws of the People's Republic of China:

(1) submitted to China International Economic and Trade Arbitration Commission Shanghai Branch for arbitration;

(2) bring a lawsuit to the people's court where the House is located.

18- The Contract has four copies with the Annex, and Party A, Party B, the business department, the tax department each hold a copy. All of them have the  
5 same effect.

18- All fees and taxes related to the registration of the Contract (including but not limited to stamp duty) should be borne by both parties in accordance with  
6 the regulations of the People's Republic of China and Shanghai.

18- Party B is obliged to cooperate with Party A to complete all forms of non-profitable research activities for the purpose of industry research, including but  
7 not limited to questionnaires, interviews with business executives, and collection of economic data. Party A will not disclose any information or data  
provided by Party B for other purpose other than industry research and will not disclose any trade secrets to any third party which is not related to  
industrial research.

Annex I  
Plan of the House

Annex II

the existing decoration of the House, ancillary facilities and equipment status, and the decoration and additional facilities which Party A allows Party B to do in writing

## Annex III

### Notice of Shanghai Pudong Software Park Park Enterprise Security Management

According to Production Safety Law of the People's Republic of China, Regulations on the Reporting, Investigation and Handling of Work Safety Accidents, Regulations on Production Safety of Shanghai, for further strengthen the security management of Shanghai Pudong Software Park, effectively protect the life of the park personnel and property safety, we will inform about the safety management in the park as follows:

#### 1. Safety Management Responsibilities of Companies in the Park

The company in the park should be responsible for the work of safety management, including the area that the company leased, in the process of working, employee's safety management during working or work-related experiences, and take the responsibility.

1. The park enterprise assigns the safety commissioner as the first safety liaison and is in charge of the safety work in the leased area and liaises with Shanghai Pudong Software Park Co., Ltd. (hereinafter referred to as "Pu soft"). If there is a change of position in the safety commissioner, the job successor automatically becomes the first safety liaison or the park shall assign another person and informed in writing to Pu Soft.
2. Strictly abide by the laws, regulations and rules related to safety and possess the qualifications and conditions for safety production required for the operation of the business and industry.
3. Pursuant to the written approval by Pu soft company, if a company can sublease or sublet the office, it shall conclude a safety management agreement with the sub-tenant on the basis of the contents of this circular with a clear emphasis on safety responsibilities and management requirements.

#### 2. Safety Requirements of Daily Operation

1. Establish safety management rules and systems with safety responsibility system as the core. Strengthen safety education and management of suppliers. Enhance daily education and training of employees in safety work. Provide safety management personnel and equipment. In accordance with the relevant regulations and establish safety standards emergency rescue and evacuation plan.
2. The renovations within the scope of renter and equipment installation should comply with the relevant provisions, norms and standards of safety and fire safety. According to national and local regulations, construction and equipment installation needs to be reviewed and accepted.
3. The facilities and equipment must pass inspection, tests and acceptance, and should be operated by trained and qualified people. Those people who are engaged in special operations must have the appropriate qualifications. The equipment and operations personnel should be reviewed annually in accordance with related regulations.

4. Don't produce, store toxic, harmful, flammable, explosive materials.
  5. Loading and unloading of goods in the designated area, do a good job of on-site safety supervision and support.
  6. It is strictly forbidden to lodge staff in the office area of Shanghai Pudong Software Park.
  7. The risk of accidents or insecurity should be self-examination and timely rectification. Cooperate with Pu soft company and the property management unit for safety inspection and rectification.
3. Requirements of Fire Safety
1. Actively involved in the fire drill and cooperate with Pu soft company and property management units.
  2. Equip fire extinguisher in line with the provisions in their own rented area. Set in line with the provisions of the requirements, identify the obvious emergency evacuation diagram. Always keep the evacuation routes and entrances and exits open.
  3. Smoking is strictly forbidden in non-smoking areas. It is forbidden to use open flame in violation of regulation.
  4. It is forbidden to block, close, occupy the evacuation routes and entrances and exits.
4. Requirements of Security and Traffic Safety
1. Improve staff's awareness of personal safety, property safety and traffic safety. Properly store their valuables such as cash and securities, and set up more reliable safety precautions to prevent theft.
  2. The motor vehicles owned by their employees or their employees' relatives shall strictly follow the traffic lights' instruction and traffic signs' instruction to drive. Parking in the line with norms and regulations.

If any unexpected incident or accident occurs, including but not limited to safety production, anti-crime, traffic or public security, it shall be reported to Pu soft as soon as possible. In the case of emergencies, it shall be reported directly to the police, fire department, rescue department and other departments immediately, afterwards be reported to Pu soft company.

Dated the 29<sup>th</sup> day of May 2019

**GOOD YEARS ENGINEERING  
COMPANY LIMITED**

and

**RANNY LIMITED**

and

**CLPS TECHNOLOGY (HONG KONG)  
CO., LIMITED**

\*\*\*\*\*

**TENANCY AGREEMENT**

of

Unit 702 on Level 7 of Millennium City 2,  
No.378 Kwun Tong Road, Kowloon erected on  
Kwun Tong Inland Lot No.654.

\*\*\*\*\*

**AU-YEUNG, CHENG, HO & TIN,  
SOLICITORS,  
HONG KONG SAR.**

**REF: IT/83148/19(702)**

My Document/Tenancy Agreement/Mill 2/  
83148TA(702)-CLPS Technology (Hong Kong) Co. Ltd

## TENANCY AGREEMENT

### SECTION I

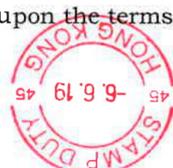
#### PARTICULARS

##### Parties

An Agreement made this 29<sup>th</sup> day of May 2019 BETWEEN the company detailed as the Landlord in Part I of the First Schedule hereto (hereinafter called "the Landlord") of the first part, the company detailed as the Confirmor in Part I of the First Schedule hereto (hereinafter called "the Confirmor") of the second part and the person firm or company detailed as the Tenant in Part I of the First Schedule hereto (hereinafter called "the Tenant") of the third part.

##### WHEREAS :

- (1) The Landlord is the registered owner of All That piece or parcel of ground registered in the Land Registry as KWUN TONG INLAND LOT NO.654 ("the Lot") together with the messuages erections and buildings thereon then known as Millennium City 2, No.378 Kwun Tong Road (hereinafter called "the Property").
- (2) By an Agreement for Sale and Purchase made between the Landlord as the Vendor of the one part and the Confirmor as the Purchaser of the other part and registered in the Land Registry by Memorial No.UB7495958 (hereinafter called "the Agreement for Sale and Purchase"), the Landlord agreed to sell and the Confirmor agreed to purchase the Property upon the terms and conditions set out thereunder but no Assignment has yet been executed.
- (3) In compliance with the terms and conditions of the Agreement for Sale and Purchase and upon full payment of the whole purchase price under the Agreement for Sale and Purchase by the Confirmor to the Landlord, the Landlord has delivered possession of the Property to the Confirmor and the Confirmor has erected a new building on the Lot to be known now as Millennium City 2, No.378 Kwun Tong Road on Kwun Tong Inland Lot No.654 (hereinafter called "the Building").
- (4) The Landlord has agreed to grant to the Tenant and the Tenant has agreed to take up a tenancy/lease of the premises forming part of the Building which said premises is more particularly described and set out in Part II of the First Schedule hereto ("the Premises") upon the terms and conditions of this Agreement.



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or without the Landlord's written consent the Landlord may at its discretion require the Tenant at the Tenant's expenses to reinstate remove or do away with such alterations fixtures or additions or any part or portion thereof and make good and repair in a proper and workmanlike manner any damage to the Premises and the Landlord's fixtures and fittings therein as a result thereof before delivering up the Premises to the Landlord.

#### Adjacent Excavation or Shoring

- 3.28 If any excavation or other building works shall be made or authorised in the vicinity of the Building, the Tenant shall permit the Landlord its servants or agents to enter the Premises to do such work as may be deemed necessary to preserve the exterior walls of the Building from injury or damage without any claim for damages or indemnity against the Landlord.

#### Re-decoration of Premises

- 3.29 At the expiration of each period of three years during the said term of this Agreement (if the said term exceeds three years) and/or also in the last three months thereof whether determined by effluxion of time or otherwise at the Tenant's expenses to paint, french polish or otherwise treat as the case maybe all the inside wood and metal work of the Premises in a workmanlike manner and grain varnish and clean the parts of the Premises usually grained, varnished and cleaned and to paint or paper with good quality materials in a workmanlike manner all walls and ceilings of the Premises usually painted or papered as the case may be, such decoration in the last three months of the said term to be executed in such colours patterns and material as the Landlord may require.

#### Security Guards

- 3.30 To employ as security guards of the Premises only such persons or such firm as may be approved by the Landlord. Such security guards shall be employed at the sole expense of the Tenant.

#### Pipes and Conduits

- 3.31 To permit the Landlord to erect use and maintain ducts pipes and conduits in and through the Premises. The Landlord or its agents shall have the right to enter the Premises at all reasonable times to examine the same Provided that the permission to the Landlord to use such pipes and conduits shall extend to the use of such pipes and conduits by the Landlord's authorised tenants and licensees, as the case may be. The Tenant accepts that there may exist in the Premises ducts pipes cables wires meters and facilities not serving the Premises exclusively and no claim or objection thereto shall be made by the Tenant.

#### SECTION IV

##### LANDLORD'S OBLIGATIONS

The Landlord covenants with the Tenant as follows :-

##### Quiet Enjoyment

- 4.1 To permit the Tenant (duly paying the rent and other charges hereby agreed to be paid on the days and in manner herein provided for payment of the same and rates and observing and performing the agreements stipulations terms conditions covenants and obligations herein contained) to have quiet possession and enjoyment of the Premises during the said term without any interruption by the Landlord or any person lawfully claiming under or through or in trust for the Landlord provided that the Tenant acknowledges that the Landlord shall have the right to carry out renovation and/or alteration and/or addition work within, outside and/or above the Building and that fitting out works will be carried out by the Landlord and/or other tenants (including but not limited to alteration work and M/E work) which may cause inconvenience to the Tenant and that the Tenant hereby agrees that the Tenant shall not make any complaint and shall not be entitled to any abatement of rent or any claims/compensation of whatever nature against the Landlord or Sun Hung Kai Real Estate Agency Limited or the manager of the Building in relation to the said works.

##### Property Tax and Government Rent

- 4.2 To pay the Property Tax and Government Rent attributable to or payable in respect of the Premises.

#### SECTION V

##### RESTRICTIONS AND PROHIBITIONS

The Tenant hereby covenants with the Landlord as follows :-

##### Installation And Alterations

- 5.1 (a) Not without the previous written consent of the Landlord, to erect install or alter any fixtures partitioning or other erection or installation in the Premises or to make suffer or permit to be made any disturbance alterations or additions to the mechanical or electrical wiring installation air-conditioning ducting pipes and

conduits (if any) and lighting fixtures or any part thereof or which may affect or be likely to affect the supply of water, electricity or other utility or service to or in the Building nor without the like consent to install or permit or suffer to be installed any equipment apparatus or machinery including any safe which imposes a weight on any part of the flooring in excess of that for which it was designed or in excess of the loading of the electrical installations in the Building. The Landlord shall be entitled to prescribe the maximum loading of the electrical main or wiring and the maximum weight and permitted location of safes and other heavy equipment and to require that the same stand on supports or such dimensions and material to distribute the weight as the Landlord may deem necessary.

- (b) In carrying out any approved work hereunder the Tenant its servants agents contractors and workmen duly approved by the Landlord shall obey and comply with all instructions and directions which maybe given by the Landlord or its authorised representatives in connection with the carrying out of such work.
- (c) Any fees or expenses incurred by the Landlord in connection with the giving of consents hereunder shall be borne by the Tenant.

#### Injury to Main Walls

- 5.2 Not without the previous written consent of the Landlord to cut maim or injure or permit or suffer to be cut maimed or injured any doors windows walls beams structural members or other part of the fabric of the Premises.

#### Alteration To Exterior

- 5.3 Not to affix anything or paint or make any alteration whatsoever to the exterior of the Premises save as provided in Clause 5.6 hereof.

#### Obstruction To Outside Windows

- 5.4 Not to block up darken or obstruct or obscure any of the windows or lights belonging to the Premises without having obtained the express written consent of the Landlord which consent may be given subject to such conditions as the Landlord may in its absolute discretion consider fit to impose.

#### Noise

- 5.5 Not to cause or produce or suffer or permit to be produced on or in the Premises any sound or noise (including sound produced by broadcasting from television, radio and any apparatus or instrument capable of producing or reproducing music and sound) or other acts or things in or on the Premises which is or are or may be a nuisance or annoyance to the

tenants or occupiers of adjacent or neighbouring premises or to users and customers of the same or to the Landlord.

#### Signs

- 5.6 Not without the written consent of the Landlord to exhibit or display on or affix to the exterior of the Premises any writing sign signboard or other device whether illuminated or not nor to affix any writing sign signboard or other device in at or above any common area lobby landing or corridor of the Building. Provided always that the Tenant shall be entitled to have its name and business displayed in lettering and/or characters to a design and standard of workmanship approved by the Landlord on a signboard upon the front of the Premises. If the Tenant carries on business under a name other than its own name he shall be entitled to have that name displayed as aforesaid upon obtaining previous written consent from the Landlord. The Tenant shall not be entitled to change the business name without previous written consent of the Landlord. Without prejudice to the foregoing the Landlord may in connection with any application for consent under this Clause require the Tenant to produce such evidence as it may think fit to show that no breach of Clause 5.18 has taken place or is about to take place.

#### Auctions And Sales

- 5.7 Not to conduct or permit any auction fire bankruptcy close out or similar sale of things or properties of any kind to take place on the Premises.

#### Illegal Immoral Or Improper Use

- 5.8 Not to use or cause permit or suffer to be used any part of the Premises for gambling or for any illegal immoral or improper purposes or in any way so as to cause nuisance annoyance inconvenience or damage or danger to the Landlord or the tenants or occupiers of adjacent or neighbouring premises.

#### No Touting

- 5.9 Not to permit any touting or soliciting for business or the distributing of any pamphlets notice or advertising matter outside the Premises or anywhere within the Building by any of the Tenant's servants agents or licensees.

#### Sleeping Or Domestic Use

- 5.10 Not to use the Premises or any part thereof as sleeping quarters or as domestic premises within the meaning of any Ordinance for the time being in force or to allow any person to remain on the Premises overnight unless with the Landlord's prior permission in writing. Such permission shall only be given to enable the Tenant to post watchmen to look after

the contents of the Premises and the names of the watchmen shall first be registered with the Landlord prior to its giving such permission.

Manufacture And Storage of Merchandise

- 5.11 Not to use the Premises for the manufacture of goods or merchandise or for the storage of goods or merchandise other than stock or materials in small quantities reasonably required in connection with and consistent with the Tenant's trade or business carried on therein by way of samples and exhibits nor to keep or store or cause or permit or suffer to be kept or stored any extra hazardous or dangerous goods within the meaning of the Dangerous Goods Ordinance and the regulations thereunder or any statutory modification or re-enactment thereof.

Obstructions In Passages

- 5.12 Not to place or leave or suffer or permit to be placed or left by any agent contractor duly approved by the Landlord, employee invitee or licensee of the Tenant any boxes furniture articles or rubbish in the entrance or any of the area under the fire shutter (if any) or any of the staircases passages or landings of the Building used in common with other tenants or the Landlord or otherwise encumber the same. In the event of the Tenant placing, leaving or suffering or permitting to be placed or left any boxes furniture articles or rubbish in the entrance or any of the staircases passages or landings of the Building, then in addition and without prejudice to the Landlord's any other rights under this Agreement, the Landlord and its agent may, and the Tenant specifically authorizes the Landlord and its agent to, remove and dispose of such boxes furniture articles or rubbish to such other place and by such means as the Landlord or its agent shall think fit and the costs of removal and/or disposal incurred by the Landlord shall forthwith be recoverable from the Tenant as a debt. The Tenant shall have no claim or compensation whatsoever against the Landlord as a result of the Landlord's removal or disposal of the Tenant's articles as aforesaid and the Tenant shall further indemnify the Landlord against all actions claims demands costs and proceedings arising as a result of the Landlord's removal or disposal of the Tenant's articles as aforesaid.

Parking And Loading Outside The Premises

- 5.13 Not to park in obstruct or otherwise use nor permit to be parked in obstructed or otherwise used by any employee agent contractor duly approved by the Landlord, invitee or licensee of the Tenant those areas (if any) of the Building allocated to parking the movement of or access for vehicles or designated as loading/unloading areas other than in accordance with the Regulations made from time to time by the Landlord or the Manager of the Building.

Goods And Merchandise Outside the Premises

- 5.14 Not to place expose or leave or permit to be placed exposed or left for display sale or otherwise any goods or merchandise whatsoever upon or over the ground outside the Premises without the prior permission of the Landlord or the Manager of the Building.

Preparation Of Food And Prevention of Odours

- 5.15 Not to cook or prepare or permit or suffer to be cooked or prepared any food in the Premises or to cause or permit any offensive or unusual odours to be produced upon or emanated from the Premises.

Food By Serviceways

- 5.16 Not to permit or allow any food or food containers or furniture or other large or heavy objects to be brought onto or removed from the Premises except by way of service entrance service exits and (if any) service lifts or otherwise as may be directed by the Landlord or the Manager of the Building from time to time and at such times as the Landlord or the Manager of the Building shall direct and not to permit passenger or service or cargo lifts to be overloaded by weight in excess of the weight which such passenger or service or cargo lifts are designed or permitted to carry.

Animals, Pets And Infestation

- 5.17 Not to keep or permit or suffer to be kept any animals or pets inside the Premises and to take all such steps and precautions to the satisfaction of the Landlord to prevent the Premises or any part thereof from becoming infested by termites rats mice roaches or any other pests or vermin and for the better observance hereof the Landlord may require the Tenant to employ at the Tenant's cost such pest extermination contractors duly approved by the Landlord as the Landlord may nominate and at such intervals as the Landlord may direct.

Subletting, Assigning

- 5.18 Not to assign underlet or otherwise part with the possession of the Premises or any part thereof in any way whether by way of subletting lending sharing or other means whereby any person or persons not named as a party to this Agreement obtains the use or possession of the Premises or any part thereof irrespective of whether any rental or other consideration is given for such use or possession and in the event of any such transfer sub-letting sharing assignment or parting with the possession of the Premises (whether for monetary consideration or not) this Agreement shall absolutely determine and the Tenant shall forthwith vacate the Premises on notice to that effect from the Landlord. The Tenancy shall be personal to the Tenant named in the First Schedule to this Agreement and without in any way limiting the generality of the

foregoing the following acts and events shall, unless approved in writing by the Landlord, be deemed to be breaches of this Clause :-

- (a) In the case of a Tenant which is a partnership the taking in of one or more new partners whether on the death or retirement of an existing partner or otherwise.
- (b) In the case of a Tenant who is an individual (including a sole surviving partner of a partnership tenant) the death insanity or disability of that individual to the intent that no right to use possess occupy or enjoy the Premises or any part thereof shall vest in the executors administrators personal representatives next of kin trustee or committee of any such individual.
- (c) In the case of a Tenant which is a corporation any take-over reconstruction amalgamation merger voluntary liquidation or change in the person or persons who owns or own a majority of its voting shares or who otherwise has or have effective control thereof.
- (d) The giving by the Tenant of a Power of Attorney or similar authority whereby the donee of the Power obtains the right to use possess occupy or enjoy the Premises or any part thereof or does in fact use possess occupy or enjoy the same.
- (e) The change of the Tenant's business name without the previous written consent of the Landlord which consent the Landlord may give or withhold at its discretion.

Breach of Government Agreement, Deed of Mutual Covenant, etc.

- 5.19 Not to cause suffer or permit any contravention of the provisions of the Government Agreement or Conditions under which Landlord holds the Premises, the Deed of Mutual Covenant and Management Agreement (if any) and any Sub-Deed of Mutual Covenant in respect of the Building, and to indemnify the Landlord against any such breach.

Breach of Insurance Policy

- 5.20 Not to cause or suffer or permit to be done any act or thing whereby the policy or policies of insurance on the Premises against damage by fire or liability to third parties for the time being subsisting may become void or voidable or whereby the rate of premium or premiums thereon may be increased, and to repay to the Landlord on demand all sums paid by the Landlord by way of increased premium or premiums thereon and all expenses incurred by the Landlord in and about any renewal of such policy or policies arising from or rendered necessary by a breach of this Clause.

Locks

- 5.21 Not, without the previous written consent of the Landlord, to alter the existing locks bolts and fittings on the entrance doors to the Premises nor to install any additional locks bolts or fittings thereon nor to alter or erect or install any fixtures partitions doors gates metal grilles shutters or other similar erection or installation whatsoever whether or a temporary or permanent nature in the Premises or in or at the doorway or entrance of the Premises or at any of the fire exits therefrom or carry out any alteration erection or installation works that might in any way contravene the regulations from time to time in force of the Fire Services Department or other competent authority concerned, nor in any other respect to contravene the said regulations.

Aerials

- 5.22 Not to erect any aerial on the roof or walls of the Building nor the ceiling or walls of the Premises.

No Gambling

- 5.23 Not to permit gambling of any description whatsoever upon the Premises.

Tenant's Association

- 5.24 Not to form or organize or attempt or make any effort to form or organize any tenant's association or union jointly with any tenants of the Building for whatever objects or purposes during the continuance of the tenancy.

Fire Shutters

- 5.25 Not at any time during the terms of this Agreement cause or permit or suffer the area under the fire shutter if any or any is to be installed in the Premises to be obstructed in any way whatsoever and to ensure that the design and layout of the Premises shall be in such manner so as not to be in breach of this Clause.

SECTION VI

EXCLUSIONS

The Landlord shall not in any circumstances be liable to the Tenant or any other person whomsoever :-

Lifts, Air-conditioning, Utilities

- 6.1 In respect of any loss of profit or of business or loss of life or loss or damage or injury to person or property sustained by the Tenant or any other person or any disruption or inconvenience suffered by the Tenant or any other person caused by or through or in any way owing to any defect in or breakdown of the lifts escalators and air-conditioning system (if any) condenser water supply system (if any) electric power and water supplies, or any other service provided in the Building, or

Fire And Overflow Of Water

- 6.2 In respect of any loss of profit or of business or loss of life or loss or damage or injury to person or property sustained by the Tenant or any other person or any disruption or inconvenience suffered by the Tenant or any other person caused by or through or in any way owing to the escape of fumes smoke fire odours or any other substance or thing or the overflow of water from anywhere within the Building or the leakage or overflow of water into the Building or any part thereof from anywhere outside the Building (whether the overflow or leakage is from any pipes, drains, water tanks, water apparatus, sprinkler system or other fire prevention or control apparatus) or the decoration or fitting out of any part of the Building carried out by the Landlord or any other tenants or occupiers of the Building, or

Security

- 6.3 For the security and safekeeping of the Premises or any contents therein and in particular but without prejudice to the generality of the foregoing the provision (if any) by the Landlord of watchmen and caretakers or any mechanical or electrical systems of alarm of whatever nature shall not create any obligation on the part of the Landlord as to the security of the Premises or any contents therein and the responsibility for the safety of the Premises and the contents thereof shall at all times rest with the Tenant, or

Causes Other than Landlord's Wilful Default

- 6.4 In respect of any loss of profit or of business or loss of life or loss or damage or injury to person or property sustained by the Tenant or any other person or any disruption or inconvenience suffered by the Tenant or any other person unless the same is caused by the wilful default of the Landlord and the Landlord is otherwise liable for the same, nor shall the rent and other charges hereinbefore mentioned or any part thereof abate or cease to be payable on account of any of the foregoing.

## SECTION VII

### ABATEMENT OF RENT

#### Suspension of Rent In Case of Fire Etc.

- 7.1 If the Premises or the Building or any part thereof shall at any time during the tenancy be destroyed or damaged or become unfit for occupation not due to any default of the Tenant but owing to fire earthquake subsidence of the ground or Acts of God and the policy or policies of insurance effected by the Landlord shall not have been vitiated or payment of policy moneys refused in whole or in part in consequence of any act or default of the Tenant or if at any time during the continuance of this Tenancy the Premises or the Building shall be condemned as a dangerous structure or a demolition order or closing order shall become operative in respect of the Premises or the Building issued by the Buildings Department then the rent hereby reserved or a fair proportion thereof according to the nature and extent of the damage sustained or order made shall after the expiration of the then current month be suspended until the Premises or Building shall again be rendered fit for occupation Provided that should the Premises or the Building not have been reinstated in the meantime either the Landlord or the Tenant may at any time after six months from the occurrence of such damage or destruction or order give to the other of them notice in writing to determine this present tenancy and thereupon the same and everything herein contained shall cease and be void as from the date of the occurrence of such destruction or damage or order or of the Premises becoming unfit for occupation but without prejudice to the rights and remedies of either party against the other in respect of any antecedent claim or breach of the agreements stipulations covenants terms and conditions herein contained or of the Landlord in respect of the rent payable hereunder prior to the coming into effect of the suspension.

## SECTION VIII

### DEFAULT

It is hereby expressly agreed and declared as follows :-

#### Default

- 8.1 If the rent and/or any charges payable hereunder or any part thereof shall be in arrear for 15 days after the same shall have become payable (whether formally demanded or not) or if there shall be any other breach or non-performance of any of the stipulations conditions covenants or agreements herein contained and on the part of the Tenant to be observed

or performed or if the Tenant shall become bankrupt or being a corporation go into liquidation (save for the purposes of amalgamation or reconstruction) or if the Tenant shall suffer execution to be levied upon the Premises or otherwise on the Tenant's goods then and in any such case it shall be lawful for the Landlord at any time thereafter to re-enter on and upon the Premises or any part thereof in the name of the whole and thereupon this Agreement shall absolutely determine but without prejudice to any right of action by the Landlord in respect of any outstanding breach or non-observance or non-performance by the Tenant of any of the terms of this Agreement. All costs and expenses incurred by the Landlord in demanding payment of the rent and other charges aforesaid (if the Landlord elects to demand) or the extent of any loss to the Landlord arising out of this Clause shall be paid by the Tenant on a full indemnity basis and shall be recoverable from the Tenant as a debt or be deductible by the Landlord from any deposit held by the Landlord hereunder.

#### Acceptance of Rent

- 8.2 The acceptance of any rent by the Landlord hereunder shall not operate and shall not be regarded by the Tenant as a waiver by the Landlord of any right to proceed against the Tenant in respect of any breach non-observance or non-performance by the Tenant of any of the agreements stipulations terms covenants and conditions herein contained and on the part of the Tenant to be observed and performed.

#### Interest

- 8.3 Notwithstanding anything hereinbefore contained in the event of default in payment of rent or other sums payable under this Agreement for a period of 15 days from the date on which the same falls due for payment, the Tenant shall further pay to the Landlord on demand interest on the amount in arrears at the rate of 1.25% per month calculated from the date on which the same becomes due for payment until the date of payment as liquidated damages and not a penalty provided that the demand and/or receipt by the Landlord of interest pursuant to this provision shall be without prejudice to and shall not affect the right of the Landlord to exercise any other right or remedy hereof (including the right of re-entry) exercisable under the terms of this Agreement.

#### Disconnection of Electricity Supply Etc.

- 8.4 In addition and without prejudice to the Landlord's right under Clauses 8.1 and 8.3 hereof, the Landlord may, and the Tenant hereby specifically authorises the Landlord, in the event of a default by the Tenant under this Agreement, to cut off the supply of water, electricity and air-conditioning chilled water to the Premises and to dispose of all objects including goods merchandise equipment furniture and fixtures in or at the Premises in such manner as the Landlord shall deem fit, and any

expenses in connection therewith shall be paid by the Tenant and shall be recoverable from it as a debt.

Acts Of Employees Invitees And Licensees

- 8.5 For the purpose of this Agreement any act default neglect or omission of any guest visitor servant contractor employee agent partner invitee customer or licensee of the Tenant shall be deemed to be the act default neglect or omission of the Tenant.

Re-entry

- 8.6 A written notice served by the Landlord on the Tenant in manner hereinafter mentioned to the effect that the Landlord thereby exercises the power of re-entry herein contained shall be a full and sufficient exercise of such power without actual entry on the part of the Landlord.

Distrain

- 8.7 For the purposes of Part III of the Landlord and Tenant (Consolidation) Ordinance (Chapter 7) and of this Agreement, the rent payable in respect of the Premises shall be and be deemed to be in arrear if not paid in advance at the times and in the manner hereinbefore provided for payment thereof.

Expenses of Notice of Default

- 8.8 The Tenant shall pay all expenses (including surveyor's fees and Solicitor's costs on a solicitor and own client basis) incurred by the Landlord incidental to the preparation and service of a notice under Section 58 of the Conveyancing and Property Ordinance (Cap.219) notwithstanding forfeiture is avoided otherwise than by relief granted by the court.

SECTION IX

DEPOSIT

Deposit

- 9.1 The Tenant shall on the signing hereof and at such other times (if any) during the term of tenancy hereby created as are specified in Part III of the First Schedule hereto deposit with the Landlord the sum or sums specified in Part IV of the First Schedule to secure the due observance and performance by the Tenant of the agreements stipulations terms and conditions herein contained and on the part of the Tenant to be observed and performed which said deposit shall be held by the Landlord throughout the currency of this Agreement free of any interest to the

Tenant with the right for the Landlord (without prejudice to any other right or remedy hereunder) to deduct therefrom the amount of any rent rates and other contributions or charges payable hereunder and any costs expenses loss or damage sustained by the Landlord as the result of any non-observance or non-performance by the Tenant of any of the said agreements stipulations obligations or conditions. In the event of any deduction being made by the Landlord from the said deposit in accordance herewith during the currency of this Agreement the Tenant shall forthwith on demand by the Landlord make a further deposit equal to the amount so deducted and failure by the Tenant so to do shall entitle the Landlord forthwith to re-enter upon the Premises and to determine this Agreement as hereinbefore provided.

#### Increase of Deposit

- 9.2 Should Part I of the Second Schedule hereto provide for an increase in rent during the said term or should the Tenant's share of the air-conditioning and management charges be increased, the Tenant shall upon notice from the Landlord of such increase becoming applicable pay to the Landlord by way of an increase in the said deposit a sum proportional to the said increase in rent or air-conditioning and management charges in order to restore the ratio of deposit to rent plus the Tenant's share of the air-conditioning and management charges to that previously subsisting and the payment of such increase shall be a condition precedent to the continuation of this tenancy.

#### Repayment of Deposit

- 9.3 Subject as aforesaid the said deposit shall be refunded to the Tenant by the Landlord without interest within 45 days after the expiration or sooner determination of this Agreement and delivery of vacant possession to the Landlord and after settlement of the last outstanding claim by the Landlord against the Tenant for any arrears of rent rates and other charges and for any breach non-observance or non-performance of any of the agreements stipulations terms and conditions herein contained and on the part of the Tenant to be observed or performed whichever shall be the later.

### SECTION X

#### REGULATIONS

#### Introduction of Regulations

- 10.1 The Landlord shall be entitled from time to time and by notice in writing to the Tenant to make introduce and subsequently amend adopt or abolish if necessary such Regulations as it may consider necessary for the

proper operation and maintenance or management of the Building or any part thereof.

Conflict

- 10.2 Such Regulations shall be supplementary to the terms and conditions contained in this Agreement and shall not in any way derogate from such terms and conditions. In the event of conflict between such Regulations and the terms and conditions of this Agreement the terms and conditions of this Agreement shall prevail.

Not Liable For Loss

- 10.3 The Landlord shall not be liable for any loss or damage however caused arising from any non-enforcement of the Regulations or non-observance thereof by any third party.

SECTION XI

SUBMISSION AND APPROVAL OF PLANS

Submission of Tenant's Plans

- 11.1 Prior to the commencement of decoration or fitting out works to the Premises the Tenant shall at its own cost prepare and submit to the Landlord suitable drawings, plans and specifications of the works to be carried out by the Tenant together with schematic sketches showing intent as to the Tenant's design and layout proposals and together with the programme of work showing their duration and works progress (hereinafter collectively called "**the Tenant's Plans**") to enable the Premises to be fitted out and completed for the purposes specified in this Agreement and in all respects in a style and manner appropriate to first class commercial and office buildings. The Tenant's Plans shall, without limitation :-
- (a) Include detailed drawings, plans and specifications for all interior layout, decorations, fittings, installations, partitioning and floor coverings;
  - (b) Include detailed drawings, plans and specifications of all electrical installations which shall be connected to the electrical systems installed by the Landlord;
  - (c) Include details of any proposed amendments, additions or alterations to any electrical mechanical or other building services;

- (d) Comply with all relevant Ordinances, regulations and bye-laws from time to time issued by the Government of Hong Kong Special Administrative Region.

#### Alteration to Building Services

- 11.2 In order to enable the building services of the Building to be effectively coordinated and controlled the Tenant agrees that all approved alterations to the building services (including drainage, air-conditioning, plumbing, security and fire services) in or for the Premises shall be carried out at the Tenant's expense only by the Landlord's contractor duly approved by the Landlord. For the avoidance of doubt, the Tenant shall at his own cost and expenses be responsible for the application and installation of all electricity meters, water meters and telephone and other communication appliances and installations for the Premises. The Tenant shall at the expiration or sooner determination of this Agreement if so required by the Landlord at the Tenant's own expense reinstate the whole or any part of the Premises in accordance with the Landlord's requirements.

#### Approval of Plans

- 11.3 (a) The Landlord will consider the Tenant's Plans and may in its absolute discretion accept or reject the Tenant's Plans or any part of them as it thinks fit within 14 days after submission of the same to Room 408, 4<sup>th</sup> Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.
- (b) The Tenant shall pay to the Landlord on demand all mechanical, engineering and structural engineering consultant's fees incurred by the Landlord in connection with the consideration and approval of the Tenant's Plans or any modifications or amendments thereof.

## SECTION XII

### INTERPRETATION AND MISCELLANEOUS

#### Name of Building

- 12.1 The Landlord reserves the right subject to any relevant provisions of the Deed of Mutual Covenant and Management Agreement (if any) and/or the Sub-Deed of Mutual Covenant in respect of the Building to name the Building with any such name or style as it in its sole discretion may determine and at any time and from time to time to change, alter, substitute or abandon any such name without the same constituting an actual or constructive eviction of the Tenant and without incurring any liability to the Tenant therefor Provided that the size of the Premises shall not be affected or reduced in any way. The Tenant shall not be entitled to

object to the renovation, refurbishment, change, alteration, amendment, variation, addition, re-location or any works thereof and shall have no right of action or claim for compensation whatsoever in connection with any matters arising from this Clause.

Landlord's Rights Regarding Common Areas and Common Facilities

12.2 Notwithstanding anything herein contained and in particular Section IV above, the Landlord shall have the right to remove, cancel, relocate or otherwise change or carry out any alteration or addition or other works to the common areas (including but not limited to entrances, passages, corridors and staircases) and common facilities (including but not limited to lifts, escalators and toilets) of the Building and such other part or parts of the Building (other than the Premises) from time to time and in such manner as the Landlord may in its absolute discretion deem fit without the same constituting an actual or constructive eviction of the Tenant and without incurring any liability whatsoever to the Tenant therefor. Provided that the size of the Premises shall not be affected or reduced in any way. The Tenant shall not be entitled to object to the renovation, refurbishment, change, alteration, amendment, variation, addition, re-location or any works thereof and shall have no right of action or claim for compensation whatsoever in connection with any matters arising from this Clause.

Sale and Redevelopment etc.

12.3 If the Landlord/Confirmor shall resolve to sell or redevelop or demolish or re-build or refurbish or renovate the Premises the Building or any part(s) thereof (which intention shall be sufficiently and conclusively evidenced by a copy of the Resolution of its Board of Directors and, in case of the sale as aforesaid, of the sale and purchase agreement certified by its Secretary or one of its Directors or a solicitor to be true and correct copy) then in any of such events the Landlord/Confirmor shall be entitled to give not less than six (6) months' notice in writing to be given and to expire on any day of any calendar month to terminate this Agreement, and immediately upon the expiration of such notice this Agreement shall notwithstanding any provisions to the contrary in this Agreement be terminated and the Tenant's right to occupy and remain in the Premises shall cease notwithstanding any rule of law or equity or any prior agreement(s) and the Tenant shall forthwith deliver up vacant possession of Premises to the Landlord/Confirmor without any claim, costs or compensation whatsoever but without prejudice to the rights and remedies of either party against the other in respect of any antecedent claim or breach of any of the covenants restrictions stipulations or conditions herein contained. "Redevelopment" and/or "demolition" for the purposes of this Clause shall mean the redevelopment and/or demolition of Building wholly or a substantial part(s) (but not necessarily a major part) thereof whether or not including any main walls exterior walls or roof of Premises and whether or not any part thereof is to be re-built or redeveloped or reconstructed in the same or any other manner, and

- (5) The Landlord is now holding the Building in which the Premises form part thereof as bare trustee for the benefit of the Confirmor and the Confirmor has agreed and confirmed the letting of the Premises by the Landlord to the Tenant upon the condition that the Confirmor shall be absolutely entitled to the benefit of any rent, rental deposit and other payment payable by the Tenant hereunder.

WHEREBY :-

Premises, Term, Rent & User

- 1.1 The Landlord hereby lets to the Tenant ALL THOSE the premises (hereinafter referred to as "the Premises") forming part of all that building (hereinafter referred to as "the Building") which said premises and said building are more particularly described and set out in Part II of the First Schedule hereto together with the provisions set out in Part VI of the First Schedule hereto and together with the use in common with the Landlord and all others having the like right of the entrances staircases landings passages and toilets in the said building in so far as the same are necessary for the proper use and enjoyment of the Premises and except in so far as the Landlord may from time to time restrict such use escalators in the Building (if any and whenever the same shall be operating) for the term set forth in Part III of the First Schedule hereto YIELDING AND PAYING therefor throughout such term rent and other charges as are from time to time payable in accordance with the provisions set out in Part I and Part II of the Second Schedule hereto which sums shall be payable exclusive of rates clear of all deductions in advance on the first day of each calendar month the first and last of such payments to be apportioned according to the number of days in the month included in the said term and the Tenant agrees to use the Premises only for the purpose as set forth in Part V of the First Schedule hereto and not for the sale or provision of any other kind of goods service or other purpose whatsoever without the express permission of the Landlord in writing.

Demolition or Refurbishment

- 1.2 If the Landlord shall at any time resolve to demolish, re-build or refurbish the Building or any part thereof which include the Premises (which resolution and the intention so to do shall be conclusively evidenced by a copy of a resolution of its board of directors certified by any one of its directors or its secretary to be a true copy ) then in such event the Landlord shall be entitled to give not less than 6 calendar months' notice in writing to expire at any time to terminate this Agreement, and immediately upon the expiration of such notice this Agreement shall terminate but without prejudice to the rights and remedies of either party against the other in respect of any antecedent claim or breach of any of the

agreements restrictions stipulations or conditions herein contained. "Demolish" and/or "rebuild" for the purposes of this Clause shall mean the demolition and/or rebuilding of the whole of the Building or a part or parts thereof whether or not including any main walls exterior walls or roof of the Premises and whether or not any part thereof is to be re-built or reconstructed in the same or any other manner. "Refurbish" may or may not include demolition of the Building or any part thereof.

## SECTION II

### RENT AND OTHER CHARGES

The Tenant covenants with the Landlord as follows :-

#### Rent

- 2.1 To pay on the days and in the manner hereinbefore provided the said rent.

#### Management Charges And Air-conditioning

- 2.2 To pay to the Landlord punctually throughout the said term contributions towards the costs and expenses or charges for the maintenance and supply of central air-conditioning and the provision of management services to the Premises the current rate of which is set forth in Part II of the Second Schedule hereto subject to the following :-
- (a) Such contributions shall be paid by the Tenant to the Landlord in advance on the first day of each and every calendar month without deduction whatsoever.
  - (b) In the event of a deficiency occurring or seeming to the Landlord likely to occur, the Landlord shall be entitled to demand collect and recover from the Tenant such additional contributions or charges as the Landlord may determine. The Landlord's assessment of the amount of deficiency and the amounts of additional contributions or charges shall be conclusive and binding on the Tenant.
  - (c) If the Tenant shall require air-conditioning outside the hours set out in Part I of the Third Schedule hereof, the same may be provided on reasonable advance notice to the Landlord at such rate as the Landlord may from time to time charge for providing the same. The Tenant shall pay the cost of the additional air-conditioning on receipt of the demand note

therefor which may be rendered weekly or at such other intervals as the Landlord may decide.

- (d) The Landlord shall be entitled from time to time to increase the contributions or charges provided for in this Clause if in the opinion of the Landlord there is or is likely to be an increase in the costs including overhead costs of the Landlord for the provision of air-conditioning or management services. If the increased contributions or charges exceed the last applicable contributions or charges by more than ten per cent, the Landlord may give the Tenant a brief explanatory memorandum of such increase but in any event the Landlord's assessment of the increases shall be conclusive and binding on the Tenant.

#### Rates

- 2.3 To pay and discharge all rates taxes assessments duties impositions charges and outgoings whatsoever now or hereafter to be imposed or levied on the Premises or upon the owner or occupier in respect thereof by the Government of Hong Kong SAR or other lawful authority (Property Tax and Government Rent alone excepted). Without prejudice to the generality of this Clause the Tenant shall unless the Landlord otherwise directs pay all rates imposed on the Premises in the first place to the Landlord who shall settle the same with the Government of Hong Kong SAR and in the event of the Premises not yet having been assessed to rates the Tenant shall pay to the Landlord a sum equal to the rates which would be charged by the Government of Hong Kong SAR on the basis of a notional rateable value equal to twelve months' rent payable by the Tenant on account of the Tenant's liability under this Clause which sum shall be payable on a monthly basis in advance and any overpayment or underpayment by the Tenant shall be adjusted when the Premises have been assessed to rates.

#### Utility Charges and Deposits

- 2.4 to pay and discharge all deposits and charges in respect of gas water electricity air-conditioning and telephone as may be shown by or operated from the Tenant's own metered supply or by accounts rendered to the Tenant in respect of all such utilities consumed on or in the Premises.

### SECTION III

#### TENANT' S OBLIGATIONS

The Tenant further covenants with the Landlord :-

#### Compliance With Ordinances

- 3.1 To obey and comply with and to indemnify the Landlord against the breach of all Ordinances, regulations, bye-laws, rules and requirements of any Governmental or other competent authority relating to the use and occupation of the Premises, or to any other act, deed, matter or thing done, permitted, suffered or omitted therein or thereon by the Tenant or any employee, agent or licensee of the Tenant and without prejudice to the foregoing to obtain any licence approval or permit required by and Governmental or other competent authority in connection with the Tenant's use or occupation of the Premises prior to the commencement of the Tenant's business and to maintain the same in force during the currency of this tenancy and to indemnify the Landlord against the consequences of a breach of this provision and to notify the Landlord forthwith in writing of any notice received from any statutory or public authority concerning or in respect of a possible breach of this Clause.

#### Fitting Out

- 3.2 To accept the condition of the Premises without prejudice to the foregoing to obtain any licence approval or permit required by any Governmental or other competent authority in connection with the Tenant's use or occupation of the Premises prior to the commencement of the Tenant's business and to maintain the same in force during the currency of this tenancy and to indemnify the Landlord against the consequences of a breach of this provision and to notify the Landlord forthwith in writing of any notice received from any statutory or public authority concerning or in respect of a possible breach of this Clause.

#### Installation Of Telephone Cables

- 3.3 The Tenant shall make his own arrangement with the Hong Kong Telephone Company Limited or such other relevant companies with regard to the installation of telephones and other communication systems in the Premises, but the installation of telephone lines and communication lines outside the Premises must be in accordance with the Landlord's directions.

#### Good Repair Of Interior

- 3.4 To keep all the interior of the Premises including the flooring and interior plaster or other finishing material or rendering to walls floors and ceilings and the Landlord's fixtures and fittings therein and all additions (whether of the Landlord or the Tenant) thereto including all doors windows electrical installations and wiring light fittings suspended ceilings fire fighting apparatus and air-conditioning plant and ducting in good clean tenable substantial and proper repair and conditions and as may be appropriate from time to time properly painted and decorated and so to maintain the same at the expense of the Tenant, and to deliver up the same to the Landlord at the expiration or sooner determination of the said

term in like condition and without prejudice to the generality of the foregoing during the last year of the term hereby reserved to repaint and decorate the interior of the Premises.

#### Replacement Of Windows

- 3.5 To pay to or reimburse the Landlord the cost of replacing all broken or damaged windows or glass of the Premises (or elsewhere if used exclusively by the Tenant) owing to the negligence by the Tenant.

#### Repair Of Electrical Installations

- 3.6 To repair or replace if so required by the appropriate Company or authority under the terms of the Electricity Supply Ordinance or any statutory modification or re-enactment thereof or any Regulations made thereunder or if the same becomes dangerous or unsafe all the electricity wiring installations and fittings within the Premises and the wiring from the Tenant's meter or meters to and within the same and the Tenant shall permit the Landlord and its authorised representatives to test the same at any time upon request being made.

#### Good Repair Of Toilets and Water Apparatus

- 3.7 At the expense of the Tenant to maintain toilets and water apparatus as are located within the Premises (or elsewhere if used exclusively by the Tenant or its licensees) in good clean and tenantable state and in proper repair and condition at all times during the said term to the satisfaction of the Landlord and in accordance with the Regulations of the Public Health or other Government Authority concerned and not to use or permit or suffer to be used any toilet facilities whether shared with other tenants or occupiers of the Building or reserved exclusively for the use of the Tenant for any purpose other than that for which they are intended and not to throw or permit or suffer to be thrown into any W. C. pan, urinal, basin sink or other toilet fitting any foreign or deleterious substance of any kind and to pay to the Landlord on demand the cost of any breakage, blockage or damage resulting from, a breach of this provision.

#### Cleaning And Cleaning Contractors

- 3.8 To keep the Premises including all external windows lights at all times in a clean and sanitary state and condition and for the better observance hereof the Tenant shall only employ as cleaners of the Premises such persons or firms as may be approved by the Landlord. Such cleaners shall be employed at the expense of the Tenant.

#### Cleaning Of Drains

- 3.9 To pay on demand to the Landlord the cost incurred by the Landlord in cleansing and clearing any of the drains choked or stopped up owing to

improper or careless use by the Tenant or his employees invitees or licensees.

To Permit Landlord To Enter

- 3.10 To permit the Landlord its agents and all persons authorised by it with or without workmen or others and with or without appliances at all reasonable times to enter upon the Premises to view the condition thereof or so as to gain access to any common areas or common facilities whether or not serving the Premises exclusively and upon prior notice to the Tenant to take inventories of the fixtures fittings and common facilities therein and to carry out any work or repair required to be done provided that in the event of an emergency the Landlord its servants or agents may enter without notice and forcibly if need be.

To Execute Repair On Receipt Of Notice

- 3.11 To make good all defects and wants or repair to the Premises for which the Tenant may be responsible hereunder within the space of one month from the receipt of written notice from the Landlord to amend and make good the same, and if the Tenant shall fail to execute such works or repairs as aforementioned to permit the Landlord to enter upon the Premises and execute the same and the cost thereof shall be a debt from the Tenant to the Landlord and be recoverable forthwith by action.

Inform Landlord Of Damage

- 3.12 To give notice to the Landlord or its agent of any damage that may be suffered to the Premises and of any accident to or defects in the water and gas pipes (if any) electrical wiring or fittings, fixtures or other services or facilities within the Premises.

Protection From Typhoon

- 3.13 To take all reasonable precautions to protect the interior of the Premises from storm or typhoon damage.

Indemnification Of Landlord

- 3.14 To be wholly responsible for any damage or injury caused to any person whomsoever directly or indirectly through the defective or damaged condition of any part of the interior of the Premises or any machinery or plant or fixtures or fittings or wiring or piping therein or outside the Premises for the repair of which the Tenant is responsible hereunder or in any way owing to the spread of fire or smoke or the overflow of water from the Premises or any part thereof or the condensation of any piping within or outside the Premises serving the Premises or through the act default of neglect of the Tenant his servants agents contractors duly approved by the Landlord, licensees partners or customers and to make good the same by payment or otherwise and to indemnify the Landlord against all costs

claims demands actions and legal proceedings whatsoever made upon the Landlord by any person in respect of any such loss damage or injury and all costs and expenses incidental thereto, and to effect adequate insurance cover in respect of such risks in accordance with the provisions of Clause 3.15 hereof.

Tenant's Insurances

3.15 To effect and maintain during the currency of this tenancy insurance cover in respect of the following :-

(a) Third Party

In respect of liability for loss injury or damage to any person or property whatsoever caused through or by any act default or neglect of the Tenant which might give rise to a claim for indemnity pursuant to Clause 3.14 hereof. The policy of insurance shall be effected with a reputable insurance company and shall be endorsed to show the Landlord as owner of the Premises and shall be in an amount not less than HK\$2,500,000.00 (in the case of the Premises being not less than 5,000 square feet) and not less than HK\$1,000,000.00 (in the case of the Premises being less than 5,000 square feet) or in such other amount as the Landlord may from time to time reasonably require and shall contain a clause to the effect that the insurance cover thereby effected and the terms and conditions thereof shall not be cancelled modified or restricted without the prior consent of the landlord. The Tenant hereby further undertakes to produce to the Landlord as and when required by the Landlord such policy of insurance together with a receipt for the last payment of premium and a certificate from the insurance company that the policy is in all respects valid and subsisting.

(b) Glass

All glass now or hereafter on or in the Premises for its full replacement value.

(c) Water Damage

Against damage to stock fixtures and fittings for the full insurable value occurring in respect of the use or misuse of the fire sprinkler system installed within the Premises or the incursion of water therein.

(d) Tenant's Fittings and Stock

The Tenant's fittings and stock and equipment within the Premises against fire and extraneous perils for their full replacement value.

Air-conditioning Of Premises

- 3.16 Where any plant machinery or equipment for cooling ventilation or circulating air is installed in or about the Premises (whether by the Landlord or the Tenant) the Tenant will to the extent of the Tenant's control over the same at all times use and regulate the same to ensure that the air-conditioning plant is employed to best advantage and conditions from time to time prevailing and without prejudice to the generality of the foregoing will operate and maintain such air-conditioning plant machinery and equipment within the Premises as the Landlord may reasonably determine to ensure a reasonably uniform standard of air cooling or ventilation throughout the Building.

Refuse And Garbage Removal

- 3.17 To be responsible for the removal of refuse and garbage from the Premises to such location as shall be specified by the Landlord from time to time and to use only that type of refuse containers as is specified by the Landlord from time to time. In the event of the Landlord providing a collection service for refuse and garbage the same shall be used by the Tenant to the exclusion of any other similar service and the use of such service provided by the Landlord shall be at the sole cost of the Tenant. If wet garbage is removed from the Premises, any extra costs charged by the Urban or Regional Services Department for removal of the same shall be borne by the Tenant.

Service Entrances

- 3.18 To load and unload goods only at such times and through such entrances and by such service lifts (if any) as shall be designated by the Landlord for this purpose from time to time.

Common Areas

- 3.19 To pay to or reimburse to the Landlord the cost of any damage caused to any part of the common areas and common services and facilities of the Building occasioned by the Tenant his licensees employees agents or contractors or any other person claiming through or under the Tenant.

Contractors Employees Invitees And Licensees

- 3.20 To be liable for any act default negligence or omission of the Tenant's contractors duly approved by the Landlord, employees, invitees, agents, partners, customers or licensees as if it were the act default negligence or omission of the Tenant and to indemnify the Landlord against all costs claims demand expenses or liability to any third party in connection therewith.

#### Directory Boards

- 3.21 To pay the Landlord immediately upon demand the cost of affixing repairing or replacing as necessary the Tenant's name in lettering to the directory boards (if any) at the Building.

#### Outside Windows

- 3.22 To keep all windows of the Premises closed at all times and not to open any of the windows of the Premises save when the air-conditioning system is not in operation.

#### Keep Premises Open

- 3.23 To keep the Premises open for business at all times of the year during the normal business hours for office premises of the Building namely the hours set forth in Part I of the Third Schedule and without prejudice to the generality of the foregoing any suspension of the Tenant's business for a period of more than three days without the prior consent of the Landlord shall constitute a material breach of this provision entitling the Landlord to determine this Agreement and to regain possession of the Premises.

#### Conducting of Business

- 3.24 To conduct the business of the Tenant so as not to prejudice the goodwill and reputation of the Building as a first class office building.

#### Deed of Mutual Covenant and Management Agreement

- 3.25 To obey and comply with the Deed of Mutual Covenant and Management Agreement and any Sub-Deed of Mutual Covenant in respect of the Building and such regulations and rules made thereunder and such regulations as may from time to time be made or adopted by the Landlord in accordance with Section X hereof.

#### Security System

- 3.26 To ensure that its own security system within and at the entrance of the Premises is at all times compatible with and linked up to the security system for the Building (if any) provided and operated by the Landlord or the Manager of the Building.

#### Yield Up Premises and Handover

- 3.27 To yield up the Premises with all fixtures fittings and additions therein and thereto at the expiration or sooner determination of this Agreement in good clean and tenantable repair and condition in accordance with the stipulations herein contained Provided That where the Tenant has made any alterations or installed any fixtures or additions to the Premises with

“refurbishment” and/or “renovation” for the purposes of this Clause may or may not include redevelopment or demolition or rebuilding of Building or any part thereof.

Public Address System

- 12.4 Notwithstanding anything herein contained or implied to the contrary the Landlord may subject to any relevant provisions of the Deed of Mutual Covenant (if any) and/or the Sub-Deed of Mutual Covenant in respect of the Building provide and install a public address system throughout the common areas and may play relay or broadcast or permit any other person to play relay or broadcast recorded music or public announcement therein.

Condonation Not A Waiver

- 12.5 No condoning, excusing or overlooking by the Landlord of any default, breach or non-observance or non-performance by the Tenant at any time or times of any of the agreements stipulations terms covenants and conditions herein contained shall operate or be regarded by the Tenant as a waiver of the Landlord’s rights hereunder in respect of any continuing or subsequent default, breach or non-observance or non-performance or so as to defeat or affect in any way the rights and remedies of the Landlord hereunder in respect of any such continuing or subsequent default or breach and no waiver by the Landlord shall be inferred from or implied by anything done or omitted by the Landlord, unless expressed in writing and signed by the Landlord.

Any consent given by the Landlord shall operate as a consent only for the particular matter to which it relates and shall in no way be considered as a waiver or release of any of the provisions hereof nor shall it be constructed as dispensing with the necessity of obtaining the specific written consent of the Landlord in the future, unless expressly so provided.

Letting Notices And Entry

- 12.6 During the three months immediately before the expiration or sooner determination of the said term of tenancy the Tenant shall permit all persons having written authority from the Landlord to enter and view the Premises and every part thereof at all reasonable times Provided Further that the Landlord shall be at liberty to affix and maintain without interference upon any external part of the Premises a notice stating that the Premises are to be let and such other information in connection therewith as the Landlord shall reasonably require during the aforementioned period of three months.

Service Of Notice

12.7 Any notice required to be served on the Tenant shall be sufficiently served if delivered to or dispatched by registered post or post or left at the Premises or at the last known address of the Tenant. A notice sent by registered post or post shall be deemed to be given at the time and date of posting.

#### Gender

12.8 In this Agreement if the context permits or requires words importing the singular number shall include the plural number and vice versa and words importing the masculine feminine or neuter gender, shall include the others of them.

#### Marginal Notes, Headings And Index

12.9 The Marginal Notes, Headings and Index (if any) are intended for guidance only and do not form a part of this Agreement nor shall any of the provisions of this Agreement be construed or interpreted by reference thereto or in any way affected or limited thereby.

#### Legal Costs and Stamp Duty

12.10 The Legal costs of and incidental to the preparation execution and registration of this Agreement together with the stamp duty, registration fees and related disbursements shall be borne by the Landlord and the Tenant in equal shares. If the Tenant shall instruct their own Solicitors, each party shall bear its own legal costs.

#### No Fine

12.11 The Tenant acknowledges that no fine premium key money or other consideration has been paid by the Tenant to the Landlord for the grant of this tenancy.

#### Joint and Several Liability

12.12 Where more than one person is included in the expressions "**the Tenant**" all such persons shall be jointly and severally liable for the performance and observance of the terms conditions and agreements herein contained and on the part of the Tenant to be performed and observed.

#### Exclusion Of Warranties/Entire Agreement

12.13 This Agreement sets out the full agreement between the parties hereto and supersedes any other commitments, agreements, warranties, representations and understandings, written or verbal, or any sketches, plans, brochures or information relating to the Premises that the parties hereto may have had with respect to the subject matter of this Agreement.

Representation

12.14 The parties hereto acknowledge that in this matter Messrs. Au-Yeung, Cheng, Ho & Tin, solicitors are acting only for the Landlord, although Messrs. Au-Yeung, Cheng, Ho & Tin, solicitors may witness the execution of this Agreement by the Tenant and collect any sum mentioned in this Agreement from the Tenant.

Special Conditions

12.15 The parties hereto further agree that they shall respectively be bound by and entitled to the benefit of the Special Conditions (if any) set out in Part II of the Third Schedule hereto.

Governing Law

12.16 This Agreement shall be governed by and construed according to the laws of Hong Kong SAR and the parties shall submit to the non-exclusive jurisdiction of the courts in Hong Kong SAR.

Rights of Third Party

- 12.17 (a) Save as provided in sub-clause (b) below, the Landlord and the Tenant do not intend any term of this Agreement to be enforceable pursuant to the Contracts (Rights of Third Parties) Ordinance (Cap.623) (the "Rights of Third Parties Ordinance").
- (b) Subject to the provisions contained in this Clause, each of the following third parties (each being a "Designated Third Party") shall have the benefit of and may enforce this Agreement pursuant to the Rights of Third Parties Ordinance:-
- (i) the manager of the said building; and
  - (ii) the Landlord's successor(s) in title and assign(s).
- (c) This Agreement may be varied from time to time or (where such right of rescission exists) rescinded without the consent of any Designated Third Party or any other person who is not a party to this Agreement and section 6(1) of the Rights of Third Parties Ordinance shall not apply to this Agreement.

**THE FIRST SCHEDULE ABOVE REFERRED TO**

**PART I**

**LANDLORD :** **GOOD YEARS ENGINEERING COMPANY LIMITED** a company incorporated under the laws of Hong Kong SAR whose registered office is situate at Unit 919, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong.

**CONFIRMOR :** **RANNY LIMITED** a company incorporated under the laws of Hong Kong SAR whose registered office is situate at 45<sup>th</sup> Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

**TENANT :** **CLPS TECHNOLOGY (HONG KONG) CO., LIMITED** a company incorporated under the laws of Hong Kong SAR whose registered office is situate at Flat 3208, Trendy Centre, 682 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.

**PART II**

(Clause 1.1)

**PREMISES**

ALL THAT **UNIT 702** on **LEVEL 7** of **MILLENNIUM CITY 2** ("the Building") erected on **KWUN TONG INLAND LOT NO.654** ("the Lot") as for the purpose of identification only more particularly shown on the plan attached hereto and thereon delineated and coloured Pink.

**PART III**

(Clause 1.1)

**TERM**

For the term of **TWO (2) YEARS** commencing on the **6<sup>th</sup> day of May 2019** and expiring on the **5<sup>th</sup> day of May 2021**.

PART IV

(Clause 9.1)

DEPOSIT

**HK\$98,245.44** equivalent to the aggregate of three months' rent and three months' air-conditioning and management charges currently payable in respect of the Premises.

PART V

(Clause 1.1)

USER

Restricted to use as offices only and for no other purpose whatsoever provided that the Tenant shall obtain all necessary licences and approvals required by any Government authority in connection with such use and the Landlord does not warrant that the Premises are fit to be used for such purpose or any particular purpose.

PART VI

(Clause 1.1)

LANDLORD'S M & E PROVISIONS

- (a) Suspended ceiling grid
- (b) Ceiling tiles
- (c) Light boxes
- (d) Air-conditioning ducting
- (e) Fan coil units
- (f) Raised floor system
- (g) Fire sprinkler system
- (h) Standard door(s)

**THE SECOND SCHEDULE ABOVE REFERRED TO**

**PART I**

(Clause 1.1)

**RENT**

The monthly rental throughout the said term of two years shall be **Hong Kong Dollars Twenty Seven Thousand Three Hundred and Ninety Only (HK\$27,390.00)** exclusive of air-conditioning and management charges, Rates and other outgoings.

**PART II**

(Clause 1.1)

**AIR-CONDITIONING AND MANAGEMENT CHARGES**

**HK\$5,358.48** per calendar month subject to review in accordance with the provisions of this Agreement.

**THE THIRD SCHEDULE ABOVE REFERRED TO**

**PART I**

(Clause 2.2 and 3.23)

**NORMAL BUSINESS HOURS**

The normal business hours of the office premises of the Building are from 8:00 a.m. to 7:00 p.m. from Monday to Friday and from 8:00 a.m. to 2:00 p.m. on Saturday. The Landlord reserves the right to alter or amend the said business hours from time to time and to such extent as the Landlord shall in its discretion deem appropriate or necessary.

PART II

(Clause 12.15)

SPECIAL CONDITIONS

1. Rent Free Period:-

Notwithstanding anything herein contained, the Tenant shall be entitled to a rent free period for the lease of the Premises which shall be from 6<sup>th</sup> May 2019 to 20<sup>th</sup> May 2019 (both days inclusive) of the term created under the Tenancy Agreement (But for the avoidance of doubt, the Tenant shall pay air-conditioning and management charges, Government Rates and all other outgoings payable hereunder by the Tenant during the rent-free period).

2. Handover Conditions: -

The Tenant acknowledges that it has inspected the Premises and is aware of its condition and agrees to take possession of the Premises in its "as is" condition. The interpretation of the "as is" condition shall be determined by the Landlord at its absolute discretion and the decision of the same shall be final and binding. The Tenant shall not in anyway delay in taking possession of the Premises and request for any postponement of commencement of the said term by refusing to accept the said decision of the Landlord. The Landlord does not guarantee that the existing fittings in the Premises including but not limited to (if any) the mechanical and electrical installation in the Premises are concurrent with the relevant governmental regulations. The Tenant further agrees to reinstate the Premises to its "bare shell" condition, that is, to remove such alterations decoration fixtures fittings and/or additions or any part or portion thereof in the Premises as decided by the Landlord (including all fixtures and fittings existing in the Premises at the date of the commencement of the said term) and deliver the same in good clean and tenantable repair and condition to the satisfaction of the Landlord at the expiration or sooner determination of this Agreement.

**IN WITNESS** whereof the Landlord, the Confirmor and the Tenant have caused this Agreement to be duly executed the day and year first above written.

SIGNED by **Lo King Wai** )  
)  
the authorized person of Sun Hung )  
Kai Real Estate Agency Limited, the )  
Delegatee from the Confirmor, who in )  
turn is the lawful attorney of the )  
Landlord whose signature(s) is/are )  
verified by:- )



**TONG MAY HING, IVY**  
Solicitor, Hong Kong SAR  
**AU-YEUNG, CHENG, HO & TIN**

For and on behalf of  
**SUN HUNG KAI REAL ESTATE AGENCY LIMITED**



Authorized Signature(s)

SIGNED by **Lo King Wai** )  
)  
the authorized person of Sun Hung )  
Kai Real Estate Agency Limited, )  
the Agent of the Confirmor whose )  
signature(s) is/are verified by:- )



**TONG MAY HING, IVY**  
Solicitor, Hong Kong SAR  
**AU-YEUNG, CHENG, HO & TIN**

For and on behalf of  
**SUN HUNG KAI REAL ESTATE AGENCY LIMITED**



Authorized Signature(s)

SIGNED by **LIN MING HUI** )  
**RAYMOND** )  
for and on behalf of the Tenant )  
in the presence of : )



**Yeung Ho Yan K638624 (5)**

For and on behalf of  
**CLPS TECHNOLOGY (HONG KONG) CO., LIMITED**  
**香港華欽軟件技術有限公司**



Authorized Signature(s)

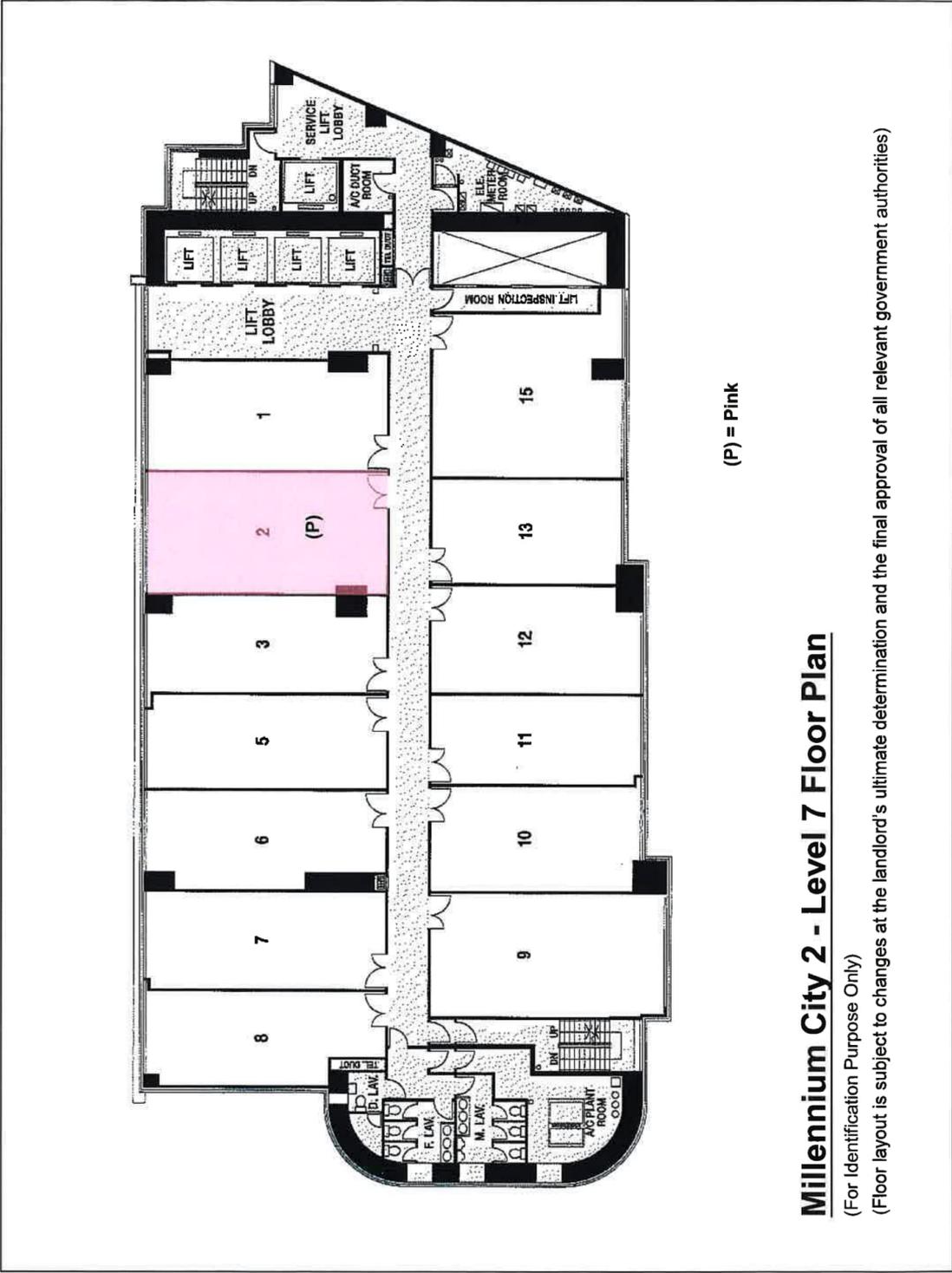
RECEIVED the day and year first above )  
written of and from the Tenant the sum )  
of HONG KONG DOLLARS NINETY )  
EIGHT THOUSAND TWO HUNDRED )  
FORTY FIVE AND CENTS FORTY )  
FOUR ONLY being the deposit money )  
above expressed to be paid by the )  
Tenant to the Landlord. ) **HK\$98,245.44**

Signature(s) verified by:-



**TONG MAY HING, IVY**  
Solicitor, Hong Kong SAR  
**AU-YEUNG, CHENG, HO & TIN**

For and on behalf of  
**SUN HUNG KAI REAL ESTATE AGENCY LIMITED**  
  
.....  
*Authorized Signature(s)*



(P) = Pink

**Millennium City 2 - Level 7 Floor Plan**

(For Identification Purpose Only)  
 (Floor layout is subject to changes at the landlord's ultimate determination and the final approval of all relevant government authorities)

**Current Fund Loan Contract**  
(Applicable to 531)

**Bank of Communications Co., Ltd.**

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**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 in 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 loaner 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 Loaner**

7.1 The loaner 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 loaner only conducts the formal examination of materials provided by the borrower during the performance of this contract that the loaner 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 loaner should issue the loan and make the payment according to this contract. The loaner should be exempted from the liability if the loaner fails to issue the loan or make the payment due to any cause below, but the loaner 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 loaner, 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 loaner.

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 contract 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: three 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 November 21, 2019 to November 21, 2020.

#### **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:

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**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<sup>√</sup> months  days, and the maturity date of all the loan should be no later than May 21, 2021.

19.2 The limit of independent payment under this contract should be RMB 0.

19.3 The entrusted payment by loaner is compulsory once any condition below is met:

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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 Credit* 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: 260 Xinqinqiao 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 ▲ ▲ .
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(No text below in this page)



Borrower: (Seal)

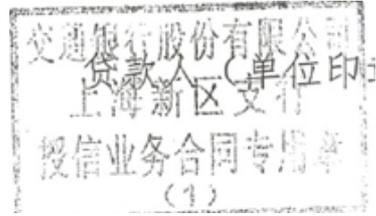
(Seal: CLPS)

Legal representative (responsible person) or authorized representative



(Signature or seal)

Date: January 8, 2020



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: January 8, 2020

**Green Credit Agreement**

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.

Borrower: CLPS

Legal representative (responsible person): Yang Xiaofeng

Address: Room 26C01, 828-838 Zhangyang Road, China (Shanghai) Free Trade Area

Mailing address: 2F, Building 18, 498 Guoshoujing Road

Loaner: Xinqu Branch (Sub-branch) of Bank of Communications Co., Ltd.

Responsible person: Cai Yue

Mailing address: 260 Xinjinqiao Road

Whereas, the borrower and loaner have entered into the Current Fund Loan Contract, Contract No. Z1912LN15693732, (Hereinafter referred to as the original contract), According to Green credit guidelines (issued by CBRC [2012] No.4.), Notice on printing and distributing key evaluation indicators of green credit implementation (issued by CBRC [2014] No.186.)'s supervision requirements, both parties agree as follows on matters related to borrower's environmental and social risk management

Article 1 Add the following contents as "representation and guarantee" under the original contract"

1.1 Party A's internal management documents related to environmental and social risks conform to the requirements of laws and regulations and are effectively implemented;

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1.2 Party A has no major lawsuit involving environmental and social risks

1.3 all behaviors and performance related to environmental and social risks of Party A are in compliance.

Article 2 Add the following contents as Party A's obligations under the original contract.

2.1. Establish and improve the internal management system of environmental and social risks, and specify the responsibilities, obligations and punishment measures of Party A's relevant responsible personnel;

2.2 Establish and improve the emergency mechanism and measures for environmental and social risk emergencies;

2.3 Set up special departments and / or appoint special personnel to be responsible for environmental and social risk issues;

2.4 Cooperate with Party B or its recognized third party in the assessment and inspection of Party A's environmental and social risks;

2.5 respond appropriately or take other necessary actions when the public or other stakeholders strongly question Party A's performance in controlling environmental and social risks;

2.6 urge Party A's vital related parties to strengthen management to prevent environmental and social risks of related parties from infecting Party A;

2.7 Party B shall perform other obligations related to the control of environmental and social risks.

▲ ▲ Article 3 Adds the following items as the items under the original contract that "shall be notified in writing within 7 days from the date of occurrence or possible occurrence of the following matters", and Party A shall notify Party B in writing within 7 days after the occurrence or possible occurrence of the following matters:

3.1 All kinds of permits, approvals and approvals related to environment, society and risks in the process of commencement, construction, operation and shutdown;

3.2 Assessment and inspection of environmental and social risks of Party A by environmental and social risk regulatory agency or its recognized institution;

3.3 Supporting construction and operation of environmental facilities; and;

3.4 Discharge and compliance of pollutants;

3.5 Safety and health of employees;

3.6 Major complaints and protests of the neighboring communities against Party A;

3.7 Major environmental and social claims;

3.8 Other major situations that Party B considers to be related to environmental and social risks.

▲ ▲ Article 4 Adds the following events as "early maturity event" and / or "quota adjustment event" under the original contract. In case of any of the following events, Party B has the right to take one, more or all of the measures stipulated in the original contract:

(1) Party A violates any agreement of this supplementary agreement;

(2) Any statement or warranty made by Party A in this supplementary agreement is false, inaccurate or misleading;

(3) Party A is punished by relevant government departments due to poor environmental and social risk management;

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(4) It is strongly questioned by the public and / or the media due to poor management of environmental and social risks, and the relevant situation is verified;

(5) Party A violates the obligations of environmental and social risk management agreed with Party B in other contracts.

Article 5 If this supplementary agreement is inconsistent with the original contract, matters related to Party A's strengthening environmental and social risk management shall apply to the provisions of this supplementary agreement, and other matters shall be subject to the original contract.

Article 6 This supplementary agreement shall come into force after being signed (or sealed) by Party A's legal representative or authorized representative and sealed by Party B's responsible person or authorized representative.

Party A has read all the terms of the agreement, and Party B has made a detailed description at the request of Party A. when signing this supplementary agreement, Party A has no doubt and objection to all the contents, and understands the contract terms, especially the eight clauses with AA mark and their legal consequences.



Borrower: (Seal)

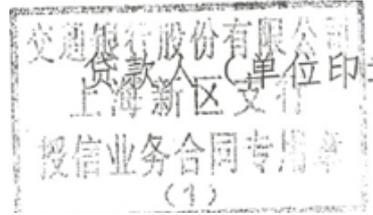
(Seal: CLPS)

Legal representative (responsible person) or authorized representative



(Signature or seal)

Date: January 8, 2020



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: January 8, 2020

**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.

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## 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 in 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 loaner 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 Loaner**

7.1 The loaner 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 loaner only conducts the formal examination of materials provided by the borrower during the performance of this contract that the loaner 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 loaner should issue the loan and make the payment according to this contract. The loaner should be exempted from the liability if the loaner fails to issue the loan or make the payment due to any cause below, but the loaner 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 loaner, 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 loaner.

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 contract 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 November 21, 2019 to November 21, 2020.

**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 May 21, 2021.

19.2 The limit of independent payment under this contract should be RMB 0.

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: 3F, Building 10, 498 Guoshoujing Road

Addressee: \_\_\_\_\_ Yang Rui \_\_\_\_\_

Post code: \_\_\_\_\_ 201203 \_\_\_\_\_

Tel: \_\_\_\_\_

Mobile: \_\_\_\_\_ 18621327026 \_\_\_\_\_

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 Credit 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: \_\_\_\_\_ 260 Xinjinqiao Road \_\_\_\_\_

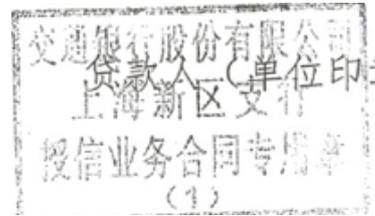
The borrower has read this contract and the loaner has made detailed descriptions as required by the borrower. The borrower possesses no objection or doubt when signing this contract and understands all the articles, especially the meaning and legal consequence of those marked with ▲ ▲ .

(No text below in this page)



Borrower: (Seal)

(Seal: CLPS)



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 4, 2019

Legal representative (responsible person) or authorized representative

(Signature or seal)



Date: December 4, 2019

**China Merchants Bank Co., Ltd.**

**Shanghai Branch**

**Credit Granting Agreement**

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## Credit Granting Agreement

**It is applicable to the situation that the working capital loan does not need to sign another loan contract**

No.:121XY2019029438

**Credit grantor:** China Merchants Bank Co., Ltd., Shanghai Century Avenue Branch (hereinafter referred to as “Party A”)

**Credit applicant:** CLPS Incorporation (hereinafter referred to as “Party B”)

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 Twenty 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.

If there is any outstanding balance of the specific business carried out under the credit agreement No. 5202180601 signed by Party A (or its subordinate organization) and Party B (fill in the text name of the agreement), it will be automatically included in this Agreement and directly occupy the credit line under this agreement

1.2 The credit term is 12 months, from December 16, 2019 to December 15, 2020. If Party B needs to use the credit line to handle the specific credit business, it shall apply to Party A for the use of the credit line within the period. Party A shall not accept the application for trial use of the credit line submitted by Party B beyond the expiration date of the credit period, unless otherwise specified in this agreement

1.3 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.

“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 analyzation and other business varieties.

1.4 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.

## **2. Arrangement of credit line**

2.1 During the credit period, the credit business applied by the borrower and approved by lender shall be automatically included in this Agreement and occupy the credit line under this arrangement.

2.2 If Party A handles the factoring business with Party B as the payer (debtor of the accounts receivable), the accounts receivable right transferred by Party A from a third party to Party B occupies the above credit line; if Party B applies to Party A for factoring business with Party B as the payee (creditor of accounts receivable), Party A's own funds or other funds from other legal sources shall pay to Party B. The payment is used to purchase the accounts receivable bonds held by Party B, and the purchase money (purchase money) occupies the above credit line.

2.3 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.

## **3. Approval and Usage of Credit Line**

3.1 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.

3.2 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.

When carrying out specific credit business with the approval of Party A, the specific business agreement (including but not limited to single agreement / application, framework agreement or specific business contract) signed by Party A and Party B for specific credit business constituting an integral part of the credit agreement. The specific amount, interest rate, term, purpose, cost and other business elements of each loan or other credit business shall be determined by the specific business agreement, the business voucher (including but not limited to the loan receipt) confirmed by Party A and the business records of Party A's system

3.3 If Party B applies for working capital loan within the credit line, Party A and Party B do not need to sign the "loan contract" one by one. Party B's application for loan is the main one, and the withdrawal application is submitted by Party A for approval one by one

3.4 Each loan or other credit within the credit line shall be used based on the business needs of Party B and the business management regulations of Party A. the maturity date of each specific business may be later than that of the credit period (unless otherwise required by Party A)

3.5 During the credit period, Party A has the right to evaluate Party B's operation and financial performance on a regular basis every year, and adjust the credit line available to Party B based on the evaluation

#### **4 Liquidity loan interest rate clause**

4.1 The interest rate of any loan under this Agreement shall be determined by Party B in the corresponding withdrawal application and approved by Party A. if the withdrawal application is inconsistent with the loan receipt of the loan, the loan receipt shall prevail

**Party A has the right to adjust the floating interest and / or basic point of working capital loan from time to time in combination with changes in national policies, changes in domestic credit market prices or changes in Party A's own credit policies. Once Party A decides to adjust, it shall notify Party B in advance, and such adjustment shall take effect after Party A notifies Party B. the specific floating rate and / or basic point of the newly withdrawn loans by Party B, as well as the loans that have been withdrawn but not yet returned by Party B before the notice takes effect, shall be implemented according to the notice of Party A**

**In case of any conflict or inconsistency between this clause and any other agreement in this agreement, the agreement in this clause shall prevail**

4.3 If Party B fails to use the loan in accordance with this agreement, the penalty interest will be charged by 100% on the basis of the original interest rate from the date of change of use. The original interest rate refers to the interest rate applicable before the loan is used for another purpose

If Party B fails to repay the loan on time, the expected interest (penalty interest) shall be charged for the outstanding part according to the standard of 50% (expected loan interest rate) based on the original interest rate from the date of overdue. The original interest rate refers to the interest rate applicable before the maturity date of the loan (including seven days in advance) (if it is a floating rate, it is the last floating period before the maturity date of the loan (including the early maturity date)

If the loan is overdue and not used in accordance with the contract, the interest shall be calculated according to the higher of the above provisions

4.4 During the loan period, if there is any regulation of the people's Bank of China on adjusting the loan interest rate, the relevant provisions of the people's Bank of China shall apply

4.5 If the maturity date of the loan is a holiday, the loan shall be automatically extended to the first working day after the holiday, and the interest shall be calculated according to the actual number of days of loan funds

4.6 Party B shall pay the interest on each and previous day. Party A may directly deduct the interest from any account of Party B in China Merchants Bank. If Party B fails to pay the interest on time, compound interest shall be calculated according to the overdue loan interest rate specified in this article

## **5. Guarantee Provisions**

5.1 For all debts owed by Party B to Party A under this agreement, Party B or a third party recognized by Party A shall provide property mortgage guarantee or joint guarantee. Party B or the third party as guarantor shall issue or sign the guarantee text separately according to the requirements of Party A

5.2 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 case of pledge of accounts receivable, Party B shall guarantee that the credit balance at any time point during the credit period is less than 80% of the pledged balance of accounts receivable; otherwise, Party B must provide a new account receivable approved by Party A for pledge or deposit into the deposit account (the deposit account number shall be automatically generated or recorded by Party A's system when the deposit of deposit is subject to the same below), until the balance of pledged accounts receivable Amount \* 80% + effective margin > credit balance

6.2.10 If the balance of the deposit account is less than 95% of the corresponding business amount due to the fluctuation of exchange rate, Party B is obliged to add the corresponding amount of deposit or other guarantee according to the requirements of Party A

6.2.11 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.

6.2.12 Party B shall ensure that the settlement, payment and other revenue and expenditure activities are mainly carried out in the British Airways settlement account opened with Party A. during the credit period, Party B's settlement transaction share in the designated account shall not be less than Party B's financing share in all banks in Party A's financing amount

## **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 Party A finds that Party B has any of the circumstances stipulated in article 6.2.6 of this agreement, Party A has the right to require Party B to implement the guarantee measures for the safe repayment of the principal and interest of the credit debt and all related expenses under this agreement according to the requirements of Party A, and also has the right to directly take one or more relief measures for breach of contract stipulated in the "event of default and handling" clause of this agreement;

7.1.10 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,

8.9 The loan projects applied for under the credit line comply with the requirements of laws and regulations. The loan shall not be used for investment in fixed assets, equity, etc., or for speculation in securities, futures and real estate in violation of regulations; it shall not be used for mutual borrowing to obtain illegal income; it shall not be used for the fields and purposes prohibited by the state for production and operation; and shall not be used for other purposes other than those specified in this Agreement and each specific business agreement

If the loan fund is paid by the borrower independently, Party B shall regularly (at least monthly) report the payment of loan fund to Party A. Party A has the right to determine whether the loan payment conforms to the agreed purpose through account analysis, certificate inspection and on-site investigation

8.10 When signing and performing this agreement, Party B does not have any other major events that affect the performance of Party B's obligations under this agreement

## **9. Special provisions on working capital loans**

### 9.1 Withdrawals and payment

Party B's use of working capital loan under this agreement includes independent payment and entrusted payment

### 9.1.1 independent payment

Independent payment means that Party A, according to Party B's withdrawal application, releases the loan funds to Party B's account, and Party B pays the loan funds to the counterparties that meet the purpose of the agreement

### 9.1.2 Entrusted payment

Entrusted payment means that Party A, according to Party B's withdrawal application and payment entrustment, pays the loan funds through Party B's account to Party B's counterparties who meet the purpose agreed in the agreement. Party B shall authorize Party A to pay Party B's counterparties through Party B's account on the day of loan granting (or the next working day after the loan is made) for the loan funds by entrusted payment method

9.1.3 Under the following circumstances, Party B shall unconditionally adopt the mode of entrusted payment

9.1.3.1 Party B's single withdrawal exceeds RMB 10 million (including or equivalent foreign currency)

9.1.3.2 Party A requires Party B to adopt the method of entrusted payment according to regulatory requirements or risk control needs

9.1.4 If the entrusted payment is adopted, the external payment after the loan is issued shall be subject to the approval of Party A. Party B shall not evade Party A's supervision by means of online banking, reverse drawing of cheques and breaking up the whole into parts

9.2 When drawing money, Party B shall submit the withdrawal application (with Party B's official seal or Party B's reserved seal in Party A) as required by Party A, loan receipt and materials required by Party B according to different requirements of independent payment and entrusted payment. Otherwise, Party A has the right to refuse Party B's withdrawal application. **If the payment information provided by Party B is inaccurate and incomplete, resulting in delay or failure of fund payment, Party A shall not be liable for the breach of contract or other losses caused by Party B to its counterparties**

### 9.3 Loan development

If Party B fails to repay the loan under this Agreement on schedule and needs to extend the loan, it shall submit a written application to party a one month before the maturity of the relevant loan; if Party A agrees to extend the loan after examination, Party A and Party B shall sign an extension agreement separately. If Party A does not agree to the extension, the loan occupied by Party B and the interest payable shall still be paid in accordance with the provisions of this Agreement and the corresponding loan receipt

## 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 It fails to withdraw and draw the loan as agreed in this agreement, or fails to repay the principal and interest or expenses of the loan in full and on time according to the provisions of this agreement, or fails to use the funds to recover the account funds as required by Party A, or fails to accept the supervision of Party A, and fails to rectify immediately as required by Party A

10.1.4 Party B has major breach of contract under the legal and effective contract signed with other creditors, and has not been satisfactorily resolved within three months from the date of breach.

**The above-mentioned major breach refers to the fact that Party B's breach of contract in the creditor's right to claim more than RMB 10000 from Party B**

10.1.5 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

10.1.6 When Party B is the supplier of the government procurement unit, the government procurement unit has risk information that is not conducive to Party A's credit repayment, such as continuous or cumulative three-phase delay in payment, or Party B's supply qualification is cancelled (entering the blacklist of government procurement), untimely supply, unstable product quality, operational difficulties, obvious deterioration of financial situation (insolvency), project shutdown, etc ;

10.1.7 Party B's financial indicators fail to continuously meet the requirements of this Agreement / specific business agreement; or any prerequisite (if any) for Party A to provide credit / financing to Party B as agreed in this Agreement / specific business agreement has not been continuously met;

10.1.8 Party B uses the loan in the way of "breaking up the whole into parts" to avoid the external payment of loan funds entrusted by Party B to Party A in accordance with the requirements of this Agreement;

10.1.9 other circumstances that Party A considers to damage the legitimate rights and interests of Party A occur.

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's acts directly jeopardize the collateral, resulting in a decrease in the value of the collateral; or the mortgagor does not affect 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.

10.3.7 if the pledger has pledged the financial products, the source of the funds of the financial products is illegal / compliant;

10.3.8 other matters that may affect the value of the mortgaged property or Party A's mortgage (pledge) right occur or may occur

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 30 % 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 submit Party B's breach of contract and breach of credit information to credit reference agencies and banking associations, and have the right to share such information among banking institutions and even to the public through appropriate means;

10.5.8 dispose of the collateral and / or recover from the guarantor in accordance with the provisions of the guarantee text;

10.5.9 for the working capital loan under the credit line, change the entrusted payment conditions of the loan fund and cancel Party B's use of the loan in the way of "independent payment";

10.5.10 recourse shall be made according to the 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 Both parties agree that: if Party B submits various applications or business vouchers for credit business through Party A's online enterprise banking system, the electronic signature generated in the form of digital certificate shall be deemed as Party B's valid signature and seal, representing Party B's true intention. Party A has the right to fill in relevant business vouchers according to the application information sent on the Internet, and Party B recognizes its authenticity, accuracy and legality, and accepts its authenticity, accuracy and legality constraint.

12.6 In order to facilitate business handling, Party A's operations (including but not limited to application acceptance, data review, loan granting, transaction confirmation, deduction, inquiry, receipt printing, collection, deduction, etc.) involved in the transaction can be processed and generated, issued or issued by any business outlet within the jurisdiction of Party A. the business operation and correspondence of the branch under the jurisdiction of Party A shall be deemed as Party A Party A's actions shall be binding on Party B

12.7 The annex under this Agreement constitutes an integral part of this Agreement and is automatically applicable to the corresponding specific business actually occurred between the two parties

12.8 This agreement involves notarization (except compulsory notarization) or other matters entrusted to a third party to provide services, and the relevant expenses shall be borne by the client. If both parties jointly act as principals, each party shall bear 50%.

In the event that Party B fails to repay the debts owed to Party A under this Agreement on time, all expenses incurred by Party A to realize the creditor's rights, such as lawyer's fees, litigation costs, travel expenses, announcement fees, delivery fees, etc., shall be borne by Party B in full, and Party B shall authorize Party A to deduct directly from Party B's bank account in Party A. In case of any shortage, Party B shall guarantee to repay the amount after receiving the notice from Party A without any proof from Party A.

12.9 Party B shall, according to the requirements of Party A (choose "✓" in the )

To insure its core assets and appoint Party A as the first beneficiary

Party A shall not sell or mortgage the 21 assets designated by Party A before the credit debts are settled

Before the credit debt is settled; the following restrictions shall be made on the dividends of its shareholders according to the requirements of Party A

12.10 Party B shall ensure that the financial indicators of Party B during the credit period shall not be lower than the following requirements

**12.11 At the same time, Party B agrees to be bound by the group credit business cooperation agreement (including the adjustment and supplement made by the signing party from time to time) signed by the first party of China Merchants Bank Co., Ltd. and Party B's parent company / head office / holding company (fill in the enterprise name), agree to be bound by the agreement, and agree to be a subordinate unit of the group under the agreement Obligations set by the subordinate units of the group. In case of any violation, Party B shall be deemed to have breached the contract, and Party A shall have the right to take various remedial measures for breach of contract stipulated in this agreement.**

**12.12 other provisions: Party A has the right to adjust the benchmark interest rate or interest rate pricing method of the loan / other credit extension under this agreement in combination with the market situation or its own credit policy. Such adjustment shall take effect after Party A notifies Party B (the notice method is to announce at Party A's website or official website, or send a notice to Party B's reserved contact address / method in this Agreement); if Party B does not accept the adjustment, it can repay in advance, otherwise it shall be deemed that the adjustment shall be carried out according to the adjusted interest rate recorded in the notice.**

### 13. Account information

13.1 Special loan account If applicable, please mark ✓ in “”

All loans and payments under this agreement must be made through the following account

Account Name: CLPS

Account No.: 121908367810901

Bank of deposit: Century avenue Sub-branch of Bank of China Merchants

13.2 Fund withdrawal account

13.2.1 Party A and Party B agree to appoint the following account as Party B's fund withdrawal account

Account Name: CLPS

Account No.: 121908367810901

Bank of deposit: Century avenue Sub-branch of Bank of China Merchants

13.2.2 the account monitoring requirements are as follows

**Party A has the right to recover the loan in advance according to the withdrawal of Party B's funds, that is, when the account has funds withdrawn, the loan corresponding to the amount of the recovered funds can be regarded as early maturity, and Party A has the right to directly deduct money from the account to repay this part of the loan.**

13.3 Party B shall provide the capital in and out of the above account on a quarterly basis, and cooperate with Party A in monitoring the relevant accounts and withdrawal funds.

### 14. Applicable law and dispute resolution

14.1 The conclusion, interpretation and dispute settlement of this Agreement shall be governed by the laws of the people's Republic of China (excluding the laws of Hong Kong, Macao and Taiwan), and the rights and interests of Party A and Party B shall be protected by the laws of the people's Republic of China.

14.2 any dispute arising from the performance of this Agreement shall be settled by both parties through negotiation. If the negotiation fails, either party may (choose one of the three, put an “inch” in the ): file a lawsuit to the people’s court with jurisdiction in the place where Party A is located)

14.2.1 Bring a lawsuit to the people’s court with jurisdiction in the place where Party A is located

14.2.2 bring a lawsuit to the people’s court with jurisdiction in the place where the agreement is signed, and the place where the agreement is signed is Century avenue Sub-branch of Bank of China Merchants

14.2.3 Apply to (fill in the name of specific arbitration institution) for arbitration, and the place of arbitration is

14.3 after this Agreement and each specific business agreement have been notarized by both parties, Party A may directly apply to the people’s court with jurisdiction for compulsory enforcement in order to recover the debts owed by Party B under this Agreement and each specific business agreement.

### **15. 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 cross border trade financing business

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 I Special Provisions regarding cross border trade financing business**

1. Cross border linkage trade financing business refers to the cross-border trade financing business provided by Party A and overseas institutions of China Merchants Bank (hereinafter referred to as "linkage platform") that Party B applies to Party A for handling based on the real cross-border trade background with overseas companies.

2. The specific types of cross-border linkage trade financing business include back-to-back L / C, entrusted L / C, entrusted overseas financing, bill guarantee, overseas credit of letter of guarantee and cross-border trade financing through train. The specific meaning and business rules of various business types shall be stipulated by specific business agreement.

3. Under the back-to-back letter of credit, the parent letter of credit applied by Party B to Party A directly occupies the credit line under this agreement. Under such parent letter of credit, Party A's bills or advances (whether during the credit period or not) and the corresponding interest and expenses constitute the financing debt of Party B to Party A and are included in the scope of credit guarantee.

Under the entrustment of L / C / overseas financing, Party A entrusts the linkage platform to accept the letter of credit applied by overseas companies / the trade financing provided by Party B occupies the credit line under this agreement. If Party A issues import collection and pledge remittance or provides advance money to Party B for external payment under import collection, such pledged remittance or advance payment (whether within the credit period or not) and relevant interest and expenses directly constitute the financing debt of Party B to Party A and be included in the scope of credit guarantee.

Under the bill guarantee, Party A directly occupies its credit line under this agreement according to the application of Party B, and guarantees the acceptance bill of Party B. If Party B fails to pay the bill in full and on time, Party A has the right to make advance payment directly on the guaranteed bill, and such advance (whether occurred during the credit period or not) and relevant interest and expenses shall be included in the scope of credit guarantee.

Under the overseas credit business of letter of guarantee, the letter of guarantee / standby letter of credit issued by Party A according to Party B's application directly occupies the credit line under this agreement. After the overseas company transfers the collection rights (non claim rights) under the letter of guarantee to the linkage platform, when the linkage platform claims to Party A according to the letter of guarantee / standby letter of credit, the advances made by Party A (whether during the credit period or not) and the relevant interest and expenses directly constitute the financing debt of Party B to Party A and are included in the scope of credit guarantee.

Under the cross-border trade financing through train, after Party A approves its trade financing according to Party B's application, the trade financing directly provided to Party B by the linkage platform occupies the credit line under this agreement. If Party B fails to repay the trade financing funds of the linkage platform in full and on schedule, Party A has the right to repay it by way of documentary or advance payment. The relevant documentary or advance payment (whether occurred in the credit period or not) and the relevant interest and expenses directly constitute the financing debt of Party B to Party A and be included in the scope of credit guarantee.

## **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 Party B's application, Party A agrees to handle the Buyer / import factoring business within the credit line, and the accounts receivable transferred from the seller / export factor shall be deducted / occupied according to the amount of the credit line under the credit agreement.

The amount paid by Party A as the Buyer / import factor to fulfill the responsibility of approved payment / guaranteed payment and related expenses shall be deemed as the credit granted by Party A to Party B under the credit agreement, and shall be included in the scope of credit guarantee provided by Party B. Party A has the right to claim the approved payment / guaranteed payment from Party B by taking various measures agreed in the credit agreement. As long as Party A has transferred the accounts receivable during the credit period, even if Party A performs the approved payment responsibility beyond the credit period, party a still has the right to claim against Party B according to the credit agreement and the business contract.

### 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. Commercial acceptance bill security business refers to the business that Party A gives discount or allows the holder to discount the commercial acceptance bill accepted, endorsed or undertaken by Party B (including bill guarantee and guarantee provided by Party B for bill debtor in addition to the bill, the same below) or allows the holder to discount any branch of China Merchants Bank (hereinafter referred to as "other discount accepting banks"). The holder (hereinafter referred to as "discount applicant") may apply for discount to Party A or other discount acceptance bank with the commercial acceptance bill, and such discount business will occupy the credit line under this agreement.

In view of the fact that Party A provides Party B with the commercial acceptance bill security service is the precondition for other discount accepting banks to accept the bill holder's application for discount, other discount acceptance banks have the right to transfer the discounted bill to Party A, and Party A has the obligation to accept the transfer. Party B has no objection to this.

2. The commercial acceptance bill mentioned in this article includes both paper commercial acceptance bill and electronic commercial acceptance bill (hereinafter referred to as electronic commercial bill); the mode of interest payment includes the buyer's interest payment, the seller's interest payment, the other party's interest payment and agreement interest payment.

3. Party B shall open a deposit account for commercial acceptance bills with Party A (the account number shall be subject to the system generated or recorded by Party A when the deposit is made), and before acceptance of each bill, Party B shall deposit a certain amount of funds into the deposit account according to the proportion required by Party a, as the payment deposit of commercial acceptance bill discounted by Party A or transferred from other discount acceptance banks.

If Party B is the acceptor of the commercial acceptance bill, Party B shall deposit the full amount of the payable bill to the deposit account opened by Party A before the maturity of each commercial acceptance bill, so as to pay the bill when it is due.

4. During the credit period, the discount applicant may directly apply to Party A for discount with the commercial acceptance bill accepted, endorsed or guaranteed by Party B, or apply for discount from other discount accepting banks. Party A or other discount accepting banks have the right to examine the qualification of discount applicants, request Party B to review and confirm, and decide whether to apply for discount at their own discretion.

Other discount accepting banks shall have the right to endorse and transfer the discounted commercial acceptance bill to Party A in accordance with relevant regulations of China Merchants Bank. After Party A processes the discount or accepts the commercial acceptance bill from other discount acceptance banks, Party B shall unconditionally and timely pay the bill payable to party a when Party B holds the bill for payment.

5. The opening, acceptance, endorsement, discount and other bill behaviors of each e-commerce bill shall be subject to the business information stored in the electronic bill system of Shanghai bill exchange, or the business records of customer statements filled or printed accordingly. The information retained in the electronic bill system of Shanghai ticketing exchange and the business records generated therefrom are integral parts of this annex and have the same legal effect as this Annex. Party B recognizes its accuracy, authenticity and legality.

6. Any dispute arising from the basic contract of commercial acceptance bill guaranteed by Party A shall be settled by Party B and the parties concerned by themselves, and Party B shall not be exempted from the obligation of timely and full deposit of deposit and draft money in accordance with Article 3.

7. If Party A has discounted the commercial acceptance bills accepted, endorsed or guaranteed by Party B, or has transferred such commercial acceptance bills from other discount acceptance banks, if the bill payer or Party B fails to pay the bill in full before the due date of the commercial acceptance bill, Party A has the right to directly take recourse against Party B, including but not limited to any account opened by Party B in China Merchants Bank Account deduction for payment. For the amount advanced by Party A due to Party B's insufficient delivery and insufficient account balance, Party A shall collect the penalty interest from Party B at the rate of 0.05% of the advance amount per day in accordance with the relevant provisions of the payment and settlement measures.

## **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.

**Special Notes:**

All terms and conditions of this Agreement (including attachments) have been fully negotiated by both parties. Party A has requested Party B to pay special attention to the clauses concerning Exemption or limitation of Party A's liability, Party A's unilateral possession of certain rights, increase of Party B's liability or limitation of Party B's rights, and make a comprehensive and accurate understanding of them. Party A has made corresponding explanation for the above terms at the request of Party B. All parties have the same understanding of the terms of this agreement.

(The content hereinafter contains no main text)

(The following is the signature column of the credit agreement No. 121xy2019029438)



(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: December 17, 2019

Signed in: Pudong New Area, Shanghai

**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 22, 2020

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, Rui Yang, 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 22, 2020

By: /s/ Rui Yang

Name: Rui Yang

Title: Acting 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, 2020 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 22, 2020

By: /s/ Raymond Ming Hui Lin

Name: Raymond Ming Hui Lin

Title: Chief Executive Officer  
(Principal Executive Officer)

October 22, 2020

By: /s/ Rui Yang

Name: Rui Yang

Title: Acting Chief Financial Officer  
(Principal Financial and Accounting Officer)

<b>Name of the Entity</b>	<b>Jurisdiction</b>
Qinheng Co., Limited	Hong Kong
Qiner Co., Limited	Hong Kong
CLIVST Ltd.	British Virgin Islands
FDT-CL Financial Technology Services Limited	Hong Kong
JQ Technology Co., Limited	Hong Kong
JIALIN Technology Limited	Taiwan
Shanghai Qincheng Information Technology Co., Ltd.	PRC
ChinaLink Professional Services Co., Ltd.	PRC
CLPS Dalian Co., Ltd.	PRC
CLPS Ruicheng Co., Ltd.	PRC
CLPS Beijing Hengtong Co., Ltd.	PRC
Judge (Shanghai) Co., Ltd.	PRC
Judge (Shanghai) Human Resource Co., Ltd.	PRC
CLPS-Ridik Technology (Australia) Pty. Ltd.	Australia
CLPS Technology (Singapore) Pte. Ltd.	Singapore
CLPS Technology (HK) Co., Ltd.	Hong Kong
CLPS Shenzhen Co., Ltd.	PRC
Tianjin Huanyu Qinshang Network Technology Co., Ltd.	PRC
CLPS Guangzhou Co., Ltd.	PRC
CLPS Technology (US) Ltd.	Delware
CLPS Technology (California) Inc.	California
Infogain Solutions PTE. Ltd.	Singapore
CLPS Hangzhou Co. Ltd.	PRC
Ridik Pte. Ltd.	Singapore
Ridik Consulting Private Limited	India
Ridik Sdn. Bhd.	Malaysia
Ridik Software Solutions Pte. Ltd.	Singapore
Ridik Software Solutions Ltd.	UK
Suzhou Ridik Information Technology Co., Ltd.	PRC
CLPS Technology Japan	Japan
Qinson Credit Card Services Limited	Hong Kong

**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, Amendment No. 1 to Registration Statement (Form F-3 No. 333-231812) and Registration Statement (Form F-3 No. 333-231812), and Registration Statement (Form S-8 No. 333-237846) pertaining to the 2020 Equity Incentive Plan of CLPS Incorporation of our report dated October 22, 2020, 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, 2020.

/s/ Ernst & Young Hua Ming LLP  
Shanghai, The People's Republic of China  
October 22, 2020

**FRIEDMAN LLP<sup>®</sup>**

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 22, 2020One Liberty Plaza, 165 Broadway, 21<sup>st</sup> Floor, New York, NY 10006 p 212.842.7000[friedmanllp.com](http://friedmanllp.com)

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