

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

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2020

OR

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

Date of event requiring this shell company report for the transition period from _____ to _____

Commission file number: 001-38851

POWERBRIDGE TECHNOLOGIES CO., LTD.
(Exact Name of Registrant as Specified in its Charter)

N/A

(Translation of Registrant's Name into English)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

**1st Floor, Building D2, Southern Software Park
Tangjia Bay, Zhuhai, Guangdong 519080, China
Tel: +86-756-339-5666**

(Address of principal executive offices)

Ban Lor, Co-Chief Executive Officer

**1st Floor, Building D2, Southern Software Park
Tangjia Bay, Zhuhai, Guangdong 519080, China
Tel: +86-756-339-5666**

(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

Name of Each Exchange on Which Registered

Ordinary shares, par value \$0.00166667

NASDAQ Capital Market

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

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

As of December 31, 2020, the issuer had 45,777,318 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 and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Emerging growth company	<input checked="" type="checkbox"/>

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:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

* If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

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INTRODUCTION

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. Numerical figures included in this 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. 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.

- All references to “RMB,” “yuan” and “Renminbi” are to the legal currency of China, all references to “HKD” is to the legal currency of Hong Kong, and all references to “USD,” and “U.S. dollars” are to the legal currency of the United States.
- “AIC” refers to Administration for Industry and Commerce in China.
- Depending on the context, the terms “we,” “us,” “our company,” “our,” “Powerbridge” and “Powerbridge Cayman” refer to Powerbridge Technologies Co., Ltd., a Cayman Islands company, and its subsidiaries and affiliated companies.
- “Controlling Shareholders” refers collectively to Ban Lor and Stewart Lor.
- Depending on the context, the terms “we,” “us,” “our company,” “our,” “Powerbridge” and “Powerbridge Cayman” refer to Powerbridge Technologies Co., Ltd., a Cayman Islands company, and its subsidiaries and affiliated companies.
- “Exchange Act” refers to the U.S. Securities Exchange Act of 1934, as amended.
- “Fiscal Year” is to the period from January 31 of each calendar year to December 31 of the following calendar year.
- “Hongding Hong Kong” refers to Hongding Technology Co., Ltd., a Hong Kong company.
- “Hongding Shenzhen” refers to Shenzhen Hongding Interconnect Technology Co., Ltd., a PRC company.
- “IPO” means the initial public offering by the Company of 2,012,500 Ordinary Shares consummated on April 4, 2019 (including the full exercise of the over-allotment option by the underwriters to purchase an additional 262,500 Ordinary Shares on May 10, 2019).
- “IP” refers to intellectual property.
- “Powerbridge HK” refers to Powerbridge Technologies Co., Limited, a Hong Kong company.
- “Powerbridge Zhuhai” refers to Zhuhai Powerbridge Technology Co., Ltd., a PRC company.
- “Powerbridge Beijing” refers to Beijing Powerbridge Technology Co., Ltd., a PRC company.
- “PRC” and “China” refer to the People’s Republic of China, excluding, for the purposes of this Annual Report only, Macau, Taiwan and Hong Kong.
- “Registration Statement” refers to the Company’s Registration Statement on Form F-1 (File No. 333-229128) for the sale of up to 1,750,000 Ordinary Shares initially filed on January 4, 2019, and subsequently amended thereafter, which became effective on March 28, 2019.

- “R&D” refers to research and development.
- “Securities Exchange Commission,” “SEC,” “Commission” or similar terms refer to the Securities Exchange Commission
- “Sarbanes-Oxley Act” refers to the Sarbanes-Oxley Act of 2002.
- “Securities Act” refers to the Securities Act of 1933.
- “Shares” or “Ordinary Share” refers to our Ordinary Shares, par value \$0.00166667 per share.
- “United States,” “U.S.” and “US” refer to the United States of America.

Discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2020 and 2019.

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 RMB6.5250 to USD1.00, the noon buying rate on December 31, 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.

Part I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

Item 3. KEY INFORMATION

A. Selected Financial Data

The following table sets forth selected historical statements of operations for the years ended December 31, 2020, 2019 and 2018, and balance sheet data as of December 31, 2020 and 2019, which have been derived from our audited consolidated financial statements included elsewhere in this annual report. The consolidated financial statements are prepared and presented in accordance with GAAP. Historical results are not necessarily indicative of the results for any future periods.

The following table presents our summary consolidated statements of income and comprehensive income for the fiscal years ended December 31, 2020, 2019 and 2018, respectively.

Selected Consolidated Statement of Income and Comprehensive Income

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

	For the Years Ended December 31,		
	2020	2019	2018
		US\$	
Revenues	26,664,011	20,095,058	23,152,267
Cost of revenues	17,271,316	14,030,347	15,318,661
Gross profit	9,392,695	6,064,711	7,833,606
Operating expenses:			
Sales and marketing	2,675,028	3,562,425	2,144,588
General and administrative	5,559,426	5,945,576	2,316,058
Provision for doubtful accounts	191,148	3,293,600	368,125
Research and development	2,780,944	2,163,658	1,992,228
Share based compensation	1,473,976	2,351,890	-
Total operating expenses	12,680,522	17,317,149	6,820,999
Operating (loss) income from operations	(3,287,827)	(11,252,438)	1,012,607
Other (Expenses) income	(15,152,307)	252,109	584,209
(Loss) income before income taxes	(18,440,134)	(11,000,329)	1,596,816
Provision (benefits) for income taxes	(80,532)	(213,347)	43,190
Net (loss) income	(18,359,602)	(10,786,982)	1,553,626
Less: (loss) income attributable to non-controlling interests	(105,945)	(145)	7,336
Net (loss) income attributable to Powerbridge's shareholders	(18,253,657)	(10,786,837)	1,546,290
Comprehensive (loss) income	(17,549,930)	(10,888,839)	1,214,388
Basic (loss) earnings per common share*	\$ (1.13)	\$ (1.29)	\$ 0.22

* 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 December 31, 2020 and 2019.

	As of December 31,	
	2020	2019
Total Current Assets	\$ 34,763,945	\$ 22,867,697
Total Assets	\$ 106,183,267	\$ 30,500,845
Total Liabilities	\$ 33,489,750	\$ 24,589,798
Total Powerbridge's Shareholders' Equity	\$ 72,805,544	\$ 5,911,062
Non-controlling Interests	\$ (112,027)	\$ (15)
Total Equity	\$ 72,693,517	\$ 5,911,047
Total Liabilities and Shareholders' Equity	\$ 106,183,267	\$ 30,500,845

Exchange Rate Information

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. On June 30, 2021, the buying rate announced by the Federal Reserve Statistical Release was RMB 6.4566 to \$1.00.

Period	Spot Exchange Rate			
	Period Ended	Average	Low	High
	(RMB per US\$1.00)			
2017	6.5063	6.7569	6.4773	6.9575
2018	6.8755	6.6090	6.2649	6.9737
2019	6.9618	6.9081	6.6912	7.1543
2020	6.5250	6.9042	6.5208	7.1681
January	6.4282	6.4672	6.4282	6.4822
February	6.4730	6.4601	6.4344	6.4869
March	6.5518	6.5109	6.4648	6.5716
April	6.4749	6.5186	6.4710	6.5649
May	6.3674	6.4321	6.3674	6.4749
June	6.4566	6.4250	6.3796	6.4811

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

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

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 and Industry

The Company's business operations could be adversely affected by the continued outbreak of COVID-19.

The Company's business operations could continue to be adversely affected by the recent outbreak of respiratory illness caused by a novel coronavirus known as COVID-19 which was first reported in the City of Wuhan, Hubei, China. The Company's corporate headquarter is located in Zhuhai, China with operation offices located in Wuhan, Changsha, Nanning and Hangzhou, where any outbreak of contagious diseases and other adverse public health developments could be materially adverse on the Company's business operations. In response to the highly contagious and sometimes fatal coronavirus inflicting thousands of people in China, the local government imposed travel restrictions and quarantines order to help control the spread of COVID-19 in February 2020. Since May 2020, the situation in China has appeared to be on a path of slow recovery from the impact. While many of the restrictions on movement within China have been relaxed as of the date of this annual report, there is great uncertainty as to the future progress of the disease

The Company primarily engages in providing software application and technology solutions and services to corporate and government customers primarily located in China. Our customers are corporate and government organizations engaged in global trade, including import and export companies, manufacturers and logistics providers engaged in international trade, as well as customs, ports, terminals, and other government agencies that oversee the flow of goods and services across borders. The global outbreak of COVID-19 has significantly adversely impacted our business operations. In late January 2020, the Zhuhai government released a stop order on all activities that involved public gatherings and movement restrictions. As a result, we were forced to postpone most of our in-person business meetings. Although we were able to communicate with customers from home to provide software and cloud services, we failed to stick to the original timelines of certain on-premise projects due to strict movement restrictions. We also experienced a slowdown in our regular business activities, as a result of remote working requirements and travel restrictions. Given that the outbreak has been gradually controlled in China, all of the Company's offices have started to resume their business. Our business was and has continued being adversely impacted by the outbreak of COVID-19. Any potential impact to the Company's results will depend on, to a large extent, future developments and new information that may emerge regarding the duration and severity of the COVID-19 and the actions taken by government authorities and other entities to contain the COVID-19 or treat its impact, almost all of which are beyond the Company's control.

Economic uncertainties or downturns could materially adversely affect our business.

Current or future economic uncertainties or downturns, including those caused by the ongoing COVID-19 outbreak (as discussed above), could adversely affect our business and operating results. Negative conditions in the general economy both in the China and abroad, including conditions resulting from changes in gross domestic product growth, the continued sovereign debt crisis, financial and credit market fluctuations, political deadlock, natural catastrophes, pandemics, warfare and terrorist attacks on the United States, Europe, the Asia Pacific region or elsewhere, could cause a decrease in business investments, including corporate spending on business intelligence software in general and negatively affect the rate of growth of our business.

General worldwide economic conditions may experience significant downturns and may be unstable. These conditions make it extremely difficult for our customers and us to forecast and plan future business activities accurately, and they could cause customers to reevaluate their decisions to subscribe to our platform, which could delay and lengthen our sales cycles or result in cancellations of planned purchases. Furthermore, during challenging economic times customers may tighten their budgets and face issues in gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. In turn, we may be required to increase our allowance for doubtful accounts, which would adversely affect our financial results.

For example, the rapid spread of coronavirus globally in 2020 and 2021 has resulted in travel restrictions and in some cases, prohibitions of non-essential travel, disruption and shutdown of businesses and greater uncertainty in global financial markets. Health concerns or political or governmental developments in countries in which we or our customers, partners and service providers operate could result in economic, social or labor instability, slow our sales process, result in customers not purchasing or renewing our products or failing to make payments, and could otherwise have a material adverse effect on our business and our results of operations and financial condition. The extent to which the coronavirus impacts our results will depend on future developments, which are highly uncertain and will include emerging information concerning the severity of the coronavirus and the actions taken by governments and private businesses to attempt to contain the coronavirus. Any prolonged contractions in the industries in which our customers or partners operate could materially and adversely impact our business, results of operations and financial condition.

To the extent subscriptions to our system solutions are perceived by customers and potential customers to be discretionary, our revenue may be disproportionately affected by delays or reductions in general information technology spending. Moreover, competitors may respond to market conditions by lowering prices and attempting to lure away our customers. In addition, the increased pace of consolidation in certain industries may result in reduced overall spending on our system solutions.

We cannot predict the timing, strength or duration of any economic slowdown, instability or recovery, generally or within any particular industry. If the economic conditions of the general economy or industries in which we operate do not improve, or worsen from present levels, our business, operating results, financial condition and cash flows could be adversely affected.

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

The market for our services is characterized by rapid technological change, evolving industry standards, changing customer preferences and new product and service introductions. Our future growth and success depend significantly on our ability to anticipate developments in technologies, and develop and offer new services to meet our customers' 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 customers 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 technologies or if we fail to develop suitable services to meet the evolving and increasingly sophisticated requirements of our customers in a timely manner, our business and results of operations could be materially and adversely affected.

Furthermore, our future growth and success could be adversely affected by conditions of potential business partners, which may cause delay or failure in development of the services or technologies.

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

We plan to significantly expand the number of customers we serve to diversify our customer base and grow our revenues. Obtaining new customers is important for us to achieve rapid revenue growth. We also plan to grow revenues from our existing customers by identifying and selling additional services to them. Our ability to attract new customers, as well as our ability to grow revenues from existing customers, 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 customers or to grow revenues from our existing customers, we may not be able to grow our revenues as quickly as we anticipate or at all.

We may be unable to effectively manage our expansion for the anticipated 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 optimized our operations in 2020 fiscal year for the anticipated growth. The number of our total employees decreased from 287 in December 2019 to 236 in December 2020. As of the date of this Annual Report, we have 236 full-time employees. We have five branches, of which are located in China (Changsha, Wuhan, Nanning, Hangzhou, Jiujiang, and Xiamen) and maintain offices in Changsha, Wuhan, Nanning, and Hangzhou to serve different customers in various geographic locations. In order to pursue existing and potential market opportunities, we plan to expand our business including (i) establishing new offices and expanding our current offices in China; (ii) exploring and expanding into international markets; and (iii) upgrading our existing services and introducing new services. We are facing the following challenges with respect to our planned expansion:

- recruiting, training, developing and retaining sufficient industry and technology talents and management personnel;
- creating and capitalizing upon economies of scale;
- managing a larger number of customers in a greater number of locations;
- maintaining effective oversight of personnel and offices;
- coordinating work among offices and project teams and maintaining high resource utilization rates;
- integrating new 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 service quality and process execution standards and maintaining high levels of customer 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 problems 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.

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

We have an extended selling cycle for certain of our software applications and technology services, which requires significant investment of capital, human resources and time by both our customers and us. Before committing to use our services, potential customers 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 customers' decision to choose alternatives to our services (such as other providers or in-house resources) and the timing of our customers' budget cycles and approval processes. Implementing our services, particularly for our application development services also involves a significant commitment of resources over an extended period of time ranging from three months to three years from both our customers and us. The ongoing COVID-19 pandemic has resulted in a reduction in economic activity by adversely affecting the Company's selling cycle. As a result, we may have a longer selling cycle and delay in business meetings, which could materially and adversely affect our business and our financials. Our customers may experience delays in obtaining internal approvals or delays associated with our services, thereby further delaying the implementation process. Our current and future customers 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 customers 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.

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

The software application and technology service industry are particularly sensitive to the economic environment, both in China and globally, and tend 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 customers operate. During an economic downturn, our customers may cancel, reduce or defer their technology spending or change their technology strategy, and reduce their purchases from us. The recent global economic slowdown, any future economic slowdown, and the resulting diminution in technology spending, could also lead to increased pricing pressure from our customers. The trade war between the U.S. and China which may lead to higher percentage of tariff to be placed on Chinese and American goods and services could also lead to a reduction of import and export volume for some of our customers resulting in reduced purchases of our services from these customers. The occurrence of any of these events could materially and adversely affect our revenues and results of operations.

We generate a significant portion of our revenues from a relatively small number of major customers and loss of business from these customers 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 customers. For the year ended December 31, 2020, one customer accounted for 25.7% of the Company's total revenues. For the year ended December 31, 2019, two customers accounted for 21.8% and 10.7% of the Company's total revenues.

Our ability to maintain close relationships with major customers is essential to the growth and profitability of our business. However, the volume of work performed for a specific customer is likely to vary from year to year, especially since we are generally not our customers' exclusive technology services provider and we do not have long-term commitments from any of our customer to purchase our services. A major customer in one year may not provide the same level of revenues for us in any subsequent year. The services we provide to our customers, and the revenues and income from those services, may decline or vary as the type and quantity of services we provide changes over time. In addition, our reliance on any individual customer for a significant portion of our revenues may give that customer 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 customers, and these factors are not predictable. These factors may include organization restructuring, pricing pressure, changes to its technology strategy, switching to another services provider or returning work in-house. The loss of any of our major customers could adversely affect our financial condition and results of operations.

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

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

A 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 portion of our income is generated, and will continue to be generated, from fees we receive for our projects at a fixed price. Our projects often involve complex technologies, utilizing workforces with different skill sets and competencies, and must be completed within compressed timeframes and meet customer requirements that are subject to changes 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.

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

Our business is affected by seasonal trends. In particular, our 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 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 technology and software 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 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.

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

Our business depends on our ability to successfully obtain payment from our customers of the amounts they owe us for our services. As of December 31, 2020 and 2019, our accounts receivable balance, net of allowance, amounted to approximately \$14.3 million and \$11.2 million, respectively. As of December 31, 2020, no customers accounted for more than 10% of our accounts receivable. As of December 31, 2019, one customer accounted 12.8% of our accounts receivable. The significant outstanding accounts receivable balance was mainly related to certain projects for our government customers such as government agencies, authorities and state-owned enterprises. Due to multiple levels of the government approval process for payments, it could take extra time for us to collect the full proceeds from our government customers. The COVID-19 pandemic created significant economic uncertainty and volatility in the credit and capital markets since December 2019. Many of customers have delayed their payments to the Company, which caused the significant increase in the Company's aged accounts receivable balance over one year and slow collection progress in 2020. In addition, since we generally do not require collateral or other security from our customers, we establish an allowance for doubtful accounts based upon estimates, historical experience and other factors surrounding the credit risk of specific customers. However, actual losses on customer 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 customers. Macroeconomic conditions, including related turmoil in the global financial system, could also result in financial difficulties for our customers, including limited access to the credit markets, insolvency or bankruptcy, and as a result could cause customers 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 customers in accordance with the contracts with our customers, our results of operations and cash flows could be adversely affected.

We face a number of risks in our strategy to target larger organizations for sales of our services, and if we do not manage these efforts effectively, our business and results of operations could be adversely affected.

A portion of our sales and marketing efforts is focusing on larger corporate and government organizations. As a result, we face a number of risks with respect to this strategy. For example, we expect to incur higher costs and longer sales cycles for larger organizations, and we may be less effective at predicting when we will complete these sales. In our industry, the decision to invest in our services may require a great number of product evaluations and multiple approvals within a potential customer's organization, which may require us to invest more time educating these potential customers. In addition, larger organizations may demand more features and professional services. As a result, these sales opportunities would likely lengthen our typical sales cycle and may require us to devote greater research and development, sales, support, and professional services resources to individual customers. This could strain our resources and result in increased costs. Moreover, larger customers may demand discounts in pricing, which could lower the amount of revenue we generate from any particular service we offer. If an expected transaction is delayed until a subsequent period, or if we are unable to close one or more expected significant transactions with larger customers or potential new customers in a particular period, our results of operations for that period, and for any future periods in which revenue from such transaction would otherwise have been recognized, may be adversely affected. Our investments in marketing and selling to large organizations may not be successful, which could harm our results of operations and our overall ability to grow our customer base.

Our business depends, in part, on services to the public sector, and significant changes in the contracting or fiscal policies of the public sector could have an adverse effect on our business.

We derive a large portion of our revenue from our services to government organizations, and we believe that the success and growth of our business will continue to depend in part on our successful procurement of government contracts. Factors that could impede our ability to maintain or increase the amount of revenue derived from government contracts, include:

- changes in fiscal or contracting policies;
- decreases in available government funding;
- changes in government programs or applicable requirements;
- the adoption of new laws or regulations or changes to existing laws or regulations; and
- potential delays or changes in the government appropriations or other funding authorization processes.

The occurrence of any of the foregoing could cause governmental organizations to delay or refrain from purchasing our services in the future or otherwise have an adverse effect on our business, results of operations and financial condition.

Any failure to offer high-quality customer support may adversely affect our relationships with our customers.

Our ability to retain existing customers and attract new customers depends on our ability to maintain a consistently high level of customer service and technical support. Our customers depend on our service support team to assist them in utilizing our services effectively and to help them to resolve issues quickly and to provide ongoing support. If we are unable to hire and train sufficient support resources or are otherwise unsuccessful in assisting our customers effectively, it could adversely affect our ability to retain existing customers and could prevent prospective customers from adopting to our services. We may be unable to respond quickly enough to accommodate short-term increases in demand for customer support. We also may be unable to modify the nature, scope and delivery of our customer support to compete with changes in the support services provided by our competitors. Increased demand for customer support, without corresponding revenue, could increase our costs and adversely affect our business, results of operations and financial condition. Our sales are highly dependent on our business reputation and on positive recommendations from customers. Any failure to maintain high-quality customer support, or a market perception that we do not maintain high-quality customer support, could adversely affect our reputation, business, results of operations and financial condition.

Incorrect or improper implementation or use of our services could result in customer dissatisfaction and negatively affect our business, results of operations, financial condition, and growth prospects.

Our services are deployed in a wide variety of increasingly complex technology environments, including on premises, in the cloud or in hybrid environments. We believe our future success will depend on our ability to increase sales of our services for use in such deployments. We must often assist our customers in achieving successful implementations of our services, which we do through our professional consulting and technical support services. If our customers are unable to implement our services successfully, or unable to do so in a timely manner, customer perceptions of our services may be harmed, our reputation and brand may suffer, and customers may choose to cease usage of our services or not to expand their use of our services. Our customers may need training in the proper use of and the variety of benefits that can be derived from our services to maximize their benefits. If our services are not effectively implemented or used correctly or as intended, or if we fail to adequately train customers on how to efficiently and effectively use our services, our customers may not be able to achieve satisfactory outcomes. This could result in negative publicity and legal claims against us, which may cause us to generate fewer sales to new customers and reductions in renewals or expansions of the use of our services with existing customers, any of which would harm our business and results of operations.

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

Our customers' business operations are subject to certain rules and regulations in China or elsewhere. Our customers 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 manner could result in breaches of contract with our customers 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 customers or be able to attract new customers and could lose revenues, which could have a material adverse effect on our business and results of operations.

If our new enhancements to our services do not achieve sufficient market acceptance, our financial results and competitive position will suffer.

We spend substantial amounts of time and money to research and develop new enhancements of our services to incorporate additional features, improve functionality or other enhancements in order to meet our customers' rapidly evolving demands. When we develop an enhancement to our services, we typically incur expenses and expend resources upfront to develop, market and promote the new enhancements. Therefore, when we develop and introduce new enhancements to our services, they must achieve high levels of market acceptance in order to justify the amount of our investment in developing and bringing them to market. If our new enhancements to our services do not garner widespread market adoption and implementation, our growth prospects, future financial results and competitive position could suffer.

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

If we make errors in the course of delivering services to our customers or fail to consistently meet service requirements of a customer, these errors or failures could disrupt the customer'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 customers' businesses. We generally provide customer support after our customized application is delivered. Certain of our customer contracts require us to comply with security obligations including maintaining system security, ensuring our system is virus-free, maintaining business continuity procedures, and verifying the integrity of employees that work with our customers by conducting background checks. Any failure in a customer's system or breach of security relating to the services we provide to the customer could damage our reputation or result in a claim for substantial damages against us. Any significant failure of our systems could impede our ability to provide services to our customers, have a negative impact on our reputation, cause us to lose customers, reduce our revenues and harm our business.

Unauthorized disclosure, destruction or modification of data, through cybersecurity breaches, computer viruses or otherwise or disruption of our services could expose us to liability, protracted and costly litigation and damage our reputation.

Our business involves the collection, storage, processing and transmission of customers' business data. An increasing number of organizations, including large merchants and businesses, other large technology companies, financial institutions and government institutions, have disclosed breaches of their information technology systems, some of which have involved sophisticated and highly targeted attacks, including on portions of their websites or infrastructure. We could also be subject to breaches of security by hackers. Threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. Concerns about security are increased when we transmit information. Electronic transmissions can be subject to attack, interception or loss. Also, computer viruses and malware can be distributed and spread rapidly over the internet and could infiltrate our systems or those of our associated participants, which can impact the confidentiality, integrity and availability of information, and the integrity and availability of our products, services and systems, among other effects. Denial of service or other attacks could be launched against us for a variety of purposes, including interfering with our services or creating a diversion for other malicious activities. These types of actions and attacks could disrupt our delivery of products and services or make them unavailable, which could damage our reputation, force us to incur significant expenses in remediating the resulting impacts, expose us to uninsured liability, subject us to lawsuits, fines or sanctions, distract our management or increase our costs of doing business.

Our encryption of data and other protective measures may not prevent unauthorized access or use of sensitive data. A breach of our system or that of one of our associated participants may subject us to material losses or liability. A misuse of such data or a cybersecurity breach could harm our reputation and deter customers from using our products and services, thus reducing our revenue. In addition, any such misuse or breach could cause us to incur costs to correct the breaches or failures, expose us to uninsured liability, increase our risk of regulatory scrutiny, subject us to lawsuits, result in the imposition of material penalties and fines under applying laws or regulations.

We cannot assure that there are written agreements in place with every associated participant or that such written agreements will prevent the unauthorized use, modification, destruction or disclosure of data or enable us or our customers to obtain reimbursement in the event we should suffer incidents resulting in unauthorized use, modification, destruction or disclosure of data. Any unauthorized use, modification, destruction or disclosure of data could result in protracted and costly litigation, which could have a material adverse effect on our business, financial condition and results of operations.

Cybersecurity incidents are increasing in frequency and evolving in nature and include, but are not limited to, installation of malicious software, unauthorized access to data and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and the corruption of data. Given the unpredictability of the timing, nature and scope of information technology disruptions, there can be no assurance that the procedures and controls we employ will be sufficient to prevent security breaches from occurring and we could be subject to manipulation or improper use of our systems and networks or financial losses from remedial actions, any of which could have a material adverse effect on our business, financial condition and results of operations.

Interruptions or performance problems associated with our technology and infrastructure may adversely affect our business, results of operations, and financial condition.

Our continued growth depends in part on the ability of our existing customers and new customers to access our SaaS services, at any time and within an acceptable amount of time. We may in the future experience, service disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors or capacity constraints. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve our performance as our SaaS services become more complex. If our services are unavailable or if our customers are unable to access features of our services within a reasonable amount of time or at all, our business would be negatively affected.

We currently provide our *SaaS* services via designated data centers and we intend to outsource our cloud infrastructure to commercial available cloud infrastructure as a service providers (“*IaaS*”), which can host our services. Our customers need to be able to access our services at any time, without interruption or degradation of performance. *IaaS* providers run their own platforms that we access, and we are, therefore, vulnerable to service interruptions. We expect that in the future we may experience interruptions, delays and outages in service and availability from time to time due to a variety of factors, including infrastructure changes, human or software errors, website hosting disruptions and capacity constraints. Capacity constraints could be due to a number of potential causes including technical failures, natural disasters, fraud or security attacks. In addition, if our security, or that of *IaaS* providers, is compromised, our services are unavailable or our customers are unable to use our services within a reasonable amount of time or at all, then our business, results of operations and financial condition could be adversely affected. In some instances, we expect that we may not be able to identify the cause or causes of these performance problems within a period of time acceptable to our customers. It may become increasingly difficult to maintain and improve our service performance, especially during peak usage times, as the features of our services become more complex and the usage of our services increases. Any of the above circumstances or events may harm our reputation, cause customers to stop using our services, impair our ability to increase revenue from existing customers, impair our ability to grow our customer base and otherwise harm our business, results of operations, and financial condition.

The market for our BaaS (blockchain-as-a-service) services is new and unproven, which could result in limited customer adoption of our services, limited customer retention, or weaker customer expansion.

We currently provide our *BaaS* services as pilot projects on a limited basis to selected customers. While we believe that, over time, the concept of a *BaaS* services will become fundamental to an organization’s core operations involving global trade, the market for *BaaS* services is largely unproven and is subject to a number of risks and uncertainties.

The market for *BaaS* services is new and less mature than traditional on-premises software applications, and the adoption rate for *BaaS* services may be slower among customers with business practices requiring highly customizable application software. Our success with *BaaS* services will depend to a substantial extent on the widespread adoption of *BaaS* services in general, but we cannot be certain that the trend of adoption of *BaaS* services will continue in the future. In particular, many organizations have invested substantial personnel and financial resources in integrating traditional software into their businesses over time, and some may be reluctant or unwilling to migrate to *BaaS*. It is difficult to predict customer adoption rates and demand for our *BaaS* services, the future growth rate and size of the *BaaS* services market or the entry of competitive applications. The expansion of the *BaaS* services market depends on a number of factors, including the cost, performance and perceived value associated with *BaaS*. If *BaaS* services do not continue to achieve market acceptance, or there is a reduction in demand for *BaaS* services caused by a lack of customer acceptance, technological challenges, weakening economic conditions, data security or privacy concerns, governmental regulation, competing technologies and services or decreases in information technology spending, it would result in decreased revenues and our business would be adversely affected.

It is difficult to predict our future operating results.

Our ability to accurately forecast our future operating results is limited and subject to a number of uncertainties, including planning for and modeling future growth. We have encountered, and will continue to encounter, risks, and uncertainties frequently experienced by growing companies in rapidly changing industries. If our assumptions regarding these risks and uncertainties, which we use to plan our business, are incorrect or change due to industry or market developments, or if we do not address these risks successfully, our operating results could differ materially from our expectations and our business could suffer.

If we have overestimated the size of our total addressable market, our future growth rate may be limited.

We have estimated the size of our total addressable market based on data published by third parties and internally generated data and assumptions. We have not independently verified any third-party information and cannot be assure of its accuracy or completeness. While we believe our market size estimates are reasonable, such information is inherently imprecise. In addition, our projections, assumptions and estimates of opportunities within our market are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including but not limited to those described in this Annual Report. If this third-party or internally generated data prove to be inaccurate or we make errors in our assumptions based on that data, our actual market may be more limited than our estimates. In addition, these inaccuracies or errors may cause us to misallocate capital and other critical business resources, which could harm our business.

Even if our total addressable market meets our size estimates and experiences growth, we may not continue to grow our share of the market. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties. Accordingly, the estimates of our total addressable market included in this Annual Report should not be taken as indicative of our ability to grow our business. For more information regarding the estimates of market opportunity and the forecasts of market growth included in this Annual Report, see the sections titled “Industry Background” and “Business—Our Opportunity.”

We face intense competition from onshore and offshore software application and technology service providers, and, if we are unable to compete effectively, we may lose customers and our revenues may decline.

The market for software application and technology services is highly competitive and we expect competition to persist and intensify. We believe that the principal competitive factors in our markets are domain knowledge and industry expertise, breadth and depth of service offerings, quality of the services offered, reputation and track record, marketing and selling skills, scalability of technology infrastructure and price. In the software application and technology services market, customers tend to engage multiple service providers instead of using an exclusive service provider, which could reduce our revenues to the extent that customers obtain services from other competing providers. 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 customer needs. Therefore, we cannot assure you that we will be able to retain our customers 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.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and teamwork fostered by our culture, which could harm our business.

We believe that our culture has been and will continue to be a key contributor to our success. We have optimized our operations in 2020 fiscal year for the anticipated growth and the number of our total employees decreased from 287 in December 2019 to 236 in December 2020. We expect to continue to adjust our workforce according to operational needs. If we do not continue to maintain our corporate culture as we grow, we may be unable to foster the innovation, creativity, and teamwork we believe we need to support our growth. Our substantial anticipated headcount growth and our transition from a private company to a public company may result in a change to our corporate culture, which could harm 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. 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 customers, 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 customers, joins a competitor or forms a competing company, we may lose customers, 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. All of our executives and key personnel have entered into employment agreements with us that contain non-competition provisions, non-solicitation and nondisclosure covenants. However, if any dispute arises between our executive officers and key personnel and us, such non-competition, non-solicitation and nondisclosure provisions might not provide effective protection to us, especially in China, where most of these executive officers and key employees reside, in light of the uncertainties with China’s legal system.

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 generate new business may be negatively affected and our revenues could decline.

The software application and technology service industry rely 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. There is significant competition for skilled personnel, especially experienced middle and senior level management, with the skills necessary to perform the services we offer to our customers. Increased competition for these personnel, in the software application and technology service industry or otherwise, could have an adverse effect on us. We have established certain 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 customers 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 customer projects or find suitable replacements for key personnel upon their departure may lead to termination of some of our customer contracts or cancellation of some of our projects, which could materially and adversely affect our business.

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 our ability to increase our productivity levels. We have expanded our operations in recent years through organic growth, which has resulted in a significant increase in our headcount and fixed overhead costs. We may face difficulties maintaining high levels of utilization. Although we try to use all commercially reasonable efforts to accurately estimate service and resource requirements from our customers, 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 customers or on specific projects and some of our sales are dedicated to specific customers 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 and project staffs appropriately and optimize our mix of services and delivery methods. If we experience a slowdown or stoppage of service for any customer or on any project for which we have dedicated professionals or project staffs, we may not be able to efficiently reallocate these professionals and project staffs to other customers 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.

If we are not able to maintain a strong brand for our services and increase market awareness of our company and our services, then our business, results of operations and financial condition may be adversely affected.

We believe that we have a strong brand in our industry and the continuing success of our services will depend in part on our ability to develop and sustain a strong brand identity for our services and to increase the market awareness of our services and their capabilities. The successful promotion of our brand will depend largely on our continued marketing efforts and our ability to offer high quality services to our customers. Our brand promotion activities may not be successful or produce increased revenue. In addition, independent industry analysts may provide reviews of our services and of competing products and services, which may significantly influence the perception of our services in the marketplace. If these reviews are negative or not as positive as reviews of our competitors' products and services, then our brand may be harmed.

The promotion of our brand also requires us to make substantial expenditures, and we anticipate that these expenditures will increase as our industry becomes more competitive and as we seek to expand into new markets. These higher expenditures may not result in any increased revenue or incremental revenue that is sufficient to offset the higher expense levels. If we do not successfully maintain and enhance our brand, then our business may not grow, we may see our pricing power reduced relative to competitors and we may lose customers, all of which would adversely affect our business, results of operations and financial condition.

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 strategic alliances and intend to pursue 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. Challenges we face in the potential 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 customer 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.

Furthermore, 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 acquisition 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.

Some of our technology incorporates “open source” software, which could negatively affect our ability to sell our services and subject us to possible litigation.

Some aspects of our technology platforms from which we develop our services, are built using open source software, and we intend to continue to use open source software in the future. The terms of certain open source licenses to which we are subject have not been interpreted by U.S., China or foreign courts, and there is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to monetize our services. Additionally, we may from time to time face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to make our software source code freely available, purchase a costly license or cease offering the implicated services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully. In addition to risks related to license requirements, use of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of software. Any of these risks could be difficult to eliminate or manage, and if not addressed, could have a negative effect on our business, results of operations and financial condition.

We may be liable to our customers 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 customer data in connection with the services we provide. Under the terms of our customer contracts, we are required to keep such information strictly confidential. We use system and network security technologies and other methods to protect sensitive and confidential customer data. We also require our employees and subcontractors to enter into confidentiality agreements to limit access to and distribution of our customers' 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 customers' confidential information. If our customers' proprietary rights are misappropriated by our employees or our subcontractors or their employees, in violation of any applicable confidentiality agreements or otherwise, our customers 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 our intellectual property, which could cause a loss of customers, reduce our revenues and harm our competitive position.

We rely on a combination of patent, 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, customers, 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. Our patent applications may not issue as patents or may not issue as patents that provide meaningful protection against third parties. 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. 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 customers deferring or limiting their purchase or use of our products until resolution of such litigation, or could require us to indemnify our customers 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 use third-party licensed software in or with our services, and the inability to maintain these licenses or errors in the software services we provide could result in increased costs or reduced service levels, which would adversely affect our business.

Our services incorporate certain third-party software obtained under licenses from other companies. We anticipate that we will continue to rely on such third-party software and development tools in the future. Such third-party companies may discontinue their products, go out of business or otherwise cease to make support available for such third-party software. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, this may not always be the case, or it may be difficult or costly to replace. In addition, integration of the software used in our services with new third-party software may require significant work and substantial investment of our time and resources. Also, to the extent that our services depends upon the successful operation of third-party software in conjunction with our software, any undetected errors or defects in such third-party software could prevent the deployment or impair the functionality of our services, delay new feature introductions, result in a failure of our services and injure our reputation. Our use of additional or alternative third-party software would require us to enter into license agreements with third parties. In the event that we are not able to maintain our licenses to third-party software, or cannot obtain licenses to new software as needed to enhance our services, our business and results of operations may be adversely affected.

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 and cash flow from operations would be sufficient to meet our anticipated cash needs for at least the next 12 months from the date of this Annual Report. However, in order to capitalize on the growing needs of global trade software applications and technology services as a result of the growth in China's global trade and rapid advancement of the Belt and Road Initiative of China, or B&R, we intend to expand to capture additional market shares. Thus, we may however, require additional cash resources for our research and development, sales and market and potential strategic alliances and acquisitions. If these cash 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 global 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.

In the event that we are in need of additional financing, such 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 solution and service offerings to respond to market demand or competitive challenges.

Failure to comply with anti-bribery, anti-corruption, and anti-money laundering laws could subject us to penalties and other adverse consequences.

We are subject to anti-corruption, anti-bribery and anti-money laundering laws in China and various other jurisdictions. From time to time, we leverage third party partners and intermediaries, including channel partners, to sell our services. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated organizations and may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, channel partners, and agents, even if we do not explicitly authorize such activities. While we have policies and procedure to address compliance with such laws, we cannot assure you that all of our employees and agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. Any violation of the applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, severe criminal or civil sanctions, or suspension or debarment from government contracts, all of which may have an adverse effect on our reputation, business, operating results and prospects.

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. Our exposure to foreign exchange risk primarily relates to the limited cash denominated in currencies other than the functional currencies of each entity. 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 Ordinary 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 Ordinary 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 and branches, 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 Ordinary Shares in foreign currency terms. For example, to the extent that we need to convert U.S. dollars we received from offerings into for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we received 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 Ordinary 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.

As we plan to expand internationally, our business will become more susceptible to risks associated with international operations.

Historically, we have generated all of our revenue from customers in PRC. We plan to expand our market coverage internationally, with a focus on B&R countries, including countries in Asia and Eastern Europe, Middle East, Africa and South America. Conducting international operations subjects us to risks that we have not generally faced in the PRC. These risks include:

- challenges caused by distance, language, cultural and ethical differences and the competitive environment;
- heightened risks of unethical, unfair or corrupt business practices, actual or claimed, in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, and irregularities in, financial statements;
- application of multiple and conflicting laws and regulations, including complications due to unexpected changes in foreign laws and regulatory requirements;
- risks associated with trade restrictions and foreign import requirements, including the importation, certification and localization of our solutions required in foreign countries, as well as changes in trade, tariffs, restrictions or requirements;
- new and different sources of competition;
- potentially different pricing environments, longer sales cycles and longer accounts receivable payment cycles and collections issues;
- management communication and integration problems resulting from cultural differences and geographic dispersion;
- greater difficulty in enforcing contracts, accounts receivable collection and longer collection periods;
- the uncertainty and limitation of protection for intellectual property rights in some countries;
- increased financial accounting and reporting burdens and complexities;
- lack of familiarity with local laws, customs and practices, and laws and business practices favoring local competitors or partners;
- uncertainties in global economy and foreign markets caused by COVID-19; and
- political, social and economic instability abroad, terrorist attacks and security concerns in general.

Any of these risks could adversely affect our business. For example, compliance with laws and regulations applicable to our international operations increases our cost of doing business in foreign jurisdictions. We may be unable to keep current with changes in government requirements as they change from time to time. Failure to comply with these regulations could have adverse effects on our business. In addition, in many foreign countries it is common for others to engage in business practices that are prohibited by our internal policies and procedures or applicable PRC laws and regulations. As we grow, we continue to implement compliance procedures designed to prevent violations of these laws and regulations. There can be no assurance that all of our employees, contractors, resellers, and agents will comply with the formal policies we will implement, or applicable laws and regulations. Violations of laws or key control policies by our employees, contractors, resellers, or agents could result in delays in revenue recognition, financial reporting misstatements, fines, penalties, or the prohibition of the import or export of our software and services, and could have a material adverse effect on our business and results of operations.

Further, our limited experience in operating our business internationally increases the risk that any potential future expansion efforts that we may undertake will not be successful. If we invest substantial time and resources to expand our international operations and are unable to do so successfully, or in a timely manner, our business and results of operations will suffer.

Our international operations may subject us to potential adverse tax consequences.

We plan to expand our international operations and staff to better support our growth into international markets. Our corporate structure and associated transfer pricing policies contemplate future growth into the international markets, and consider the functions, risks and assets of the various entities involved in the intercompany transactions. The amount of taxes we pay in different countries and jurisdictions may depend on the application of the tax laws of the various countries and jurisdictions, including the United States, to our international business activities, changes in tax rates, new or revised tax laws or interpretations of existing tax laws and policies and our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. The taxing authorities of the countries and jurisdictions in which we operate may challenge our methodologies for pricing intercompany transactions pursuant to our intercompany arrangements or disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a challenge or disagreement were to occur, and our position was not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations. Our financial statements could fail to reflect adequate reserves to cover such a contingency.

We've provided a certain amount of working capital support to Shenzhen Kezhi Technology Co., Ltd., which will be due in two years. If we are unable to collect the loan receivable or maintain low default rate, our business and results of operations may be materially adversely affected

In October 2020, we started to implement our plan to build a network of digital displays such as LCD screens and operate an advertisement platform in Shenzhen, China, initially, and then expand to the Greater Bay Area of China. On September 25, 2020, Shenzhen Honghao Internet Technology Co. Ltd. ("Honghao"), the wholly-owned subsidiary of the Company, entered into a leasing agreement (the "Original Leasing Agreement") with Shenzhen Kezhi Technology Co., Ltd., a company incorporated under the PRC laws ("Kezhi"), pursuant to which, Kezhi agreed to transfer the right to operate and publish advertisements at certain advertising space it leases or controls in certain shopping centers in Shenzhen, Guangdong, to Honghao. On November 20, 2020, Honghao and Kezhi entered into a supplemental agreement to the Original Leasing Agreement (the "First Supplemental Agreement"), pursuant to which, Kezhi agreed to transfer the right to operate and publish advertisements at certain additional advertising space it leased or controls in several urban villages in Shenzhen, Guangdong, to Honghao. However, due to uncertainties caused by COVID-19 on media business in China, the Company entered into a second and third supplemental agreement to the Original Leasing Agreement with Kezhi on May 12, 2021 and May 16, 2021 (the "Second Supplemental Agreement" and the "Third Supplemental Agreement"). Pursuant to such supplemental agreements, both parties agreed that all the prepayments paid by the Company in aggregated of approximately \$68.1 million to Kezhi shall be considered as the Company's working capital support loan to Kezhi for a term of two years with specific annual repayment plan. The repayment of loan is guaranteed by a third party. If we are unable to collect this loan receivable from Kezhi on timely basis, we might incur significant loss, which is also harmful to our liquidity and future cash flow.

Advertising is particularly sensitive to changes in economic conditions and advertising trends.

Demand for advertising time slots and advertising frame space on our networks, and the resulting advertising spending by our clients, is particularly sensitive to changes in general economic conditions and advertising spending typically decreases during periods of economic downturn. Advertisers may reduce the money they spend to advertise on our networks for a number of reasons, including:

- a general decline in economic conditions;
- a decline in economic conditions in the particular cities where we conduct business;
- a decision to shift advertising expenditures to other available advertising media; or
- a decline in advertising spending in general.

A decrease in demand for advertising media in general and for our advertising services in particular would materially and adversely affect our ability to generate revenue from our advertising services, and our financial condition and results of operations.

Our operating results of our advertising and media business are difficult to predict and may fluctuate significantly from period to period in the future.

The operating results of advertising and media business of Kezhi are difficult to predict and may fluctuate significantly from period to period based on the seasonality of consumer spending and corresponding advertising trends in China. 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. Factors that are likely to cause our operating results to fluctuate include the seasonality of advertising spending in China, a deterioration of economic conditions in China and potential changes to the regulation of the advertising industries in China. If Kezhi fails to return the working capital as scheduled, we may be unable to reduce our operating expenses for that quarter by a corresponding amount, which would harm our overall operating results for that quarter relative to our operating results from other quarters.

The out-of-home advertising market is intensely competitive. In addition, we might face competitive pressure from well-established internet companies, marketing agencies and traditional media.

With the introduction of new technologies and the influx of new entrants, we expect competition to continue and intensify, which could harm our ability to increase revenue and attain or sustain profitability. We believe the principal competitive factors in this industry include:

- ability to deliver return on marketing expenditure at scale;
- customer trust;
- geographic reach;
- breadth and depth of cooperation with publishers, ad exchanges, ad networks and other participants in the online marketing ecosystem;
- comprehensiveness of solutions and service offerings;
- pricing structure and competitiveness;
- cross-channel capabilities;
- accessibility and user-friendliness of solutions; and
- brand awareness.

In addition, independent online marketing technology platforms face competitive pressure from large and well-established internet companies which have established stronger and broader presence across the online marketing ecosystem and have significantly more financial, technical, marketing and other resources, more extensive client base, and longer operating histories and greater brand recognition than we do. These companies may also leverage their positions to make changes to their systems, platforms, exchanges, networks or other products or services that could be harmful to our business and results of operations. In addition, these large and well-established companies control content distribution channels and would directly compete with us should we vertically expand our business to own or operate content distribution channels in the future. Further, some of these companies are, or may also become, our content distribution channels and may enter into other types of strategic arrangements with us. We also face competition from marketing agencies, who may have their own relationships with content distribution channels and can directly connect marketers with such channels. Furthermore, we continue to compete with traditional media including direct marketing, television, radio, cable and print advertising companies.

New technologies and methods of online marketing present an evolving competitive challenge, as market participants upgrade or expand their service offerings to capture more marketing spend from marketers. In addition to existing competitors and their existing service offerings, we expect to face competition from new entrants to the online marketing technology industry and new service offerings from existing competitors. If existing or new companies develop, market or resell competitive high-value marketing technology solutions, acquire one of our competitors or strategic partners, form a strategic alliance or enter into exclusivity arrangement with one of our competitors or strategic partners, our ability to compete effectively could be significantly compromised and our business, results of operations and prospects could be materially and adversely affected.

If our advertising business do not achieve widespread market acceptance, our business, growth prospects and results of operations would be materially and adversely affected. And we may change our strategy in advertising business.

The market for out-of-home advertising is evolving in China and may not achieve or sustain high levels of demand and market acceptance as we expect because we may face competition from mobile and social media. While marketing via search engines or display channels has been established for several years, marketing via new digital channels such as mobile and social media is not as well established and under quick development. The future growth of our out-of-home advertising business could be constrained by our competitors in out-of-home digital display business and competitors from emerging online marketing channels and social media.

Expansion of our outdoor advertising business depends on a number of factors, including the growth of new digital advertising channels such as mobile and social media and the cost, as well as the performance and perceived value associated with online marketing technology solutions. If we do not achieve widespread acceptance, or there is a reduction in demand for out-of-home advertising caused by weakening economic conditions, decreases in corporate spending, technological challenges, data security or privacy concerns, governmental regulation, competing technologies and solutions or otherwise, our business, growth prospects and results of operations will be materially and adversely affected, and therefore, we may seek a new business strategy in operating these out-of-door digital displays.

If Kezhi fails to maintain existing relationships or obtain new relationships, it may harm or reverse our growth potential and our ability to increase our revenues.

Kezhi's ability to repay the working capital loans may depend on generate revenues from advertising sales depending largely upon its ability to provide large networks of flat-panel displays placed in desirable building, commercial and store locations, of advertising poster frames placed in residential complexes, to secure desirable locations of large outdoor LED digital billboards, throughout major urban areas in China. Kezhi also depend on the ability of our third-party location provider to secure desirable LED digital billboard locations for our outdoor LED network. This, in turn, requires that we develop and maintain business relationships with real estate developers, landlords, property managers, hypermarkets, retailers and other businesses and locations in which we rent space for our displays and digital billboards.

We may need additional capital and we may not be able to obtain it, which could adversely affect our liquidity and financial position.

We believe that our current cash and cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs including for working capital and capital expenditures, for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments. If these sources 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 convertible debt securities or additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations and liquidity.

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 alternative advertising media companies;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of foreign investment in advertising services companies in China;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that financing will 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 could have a material adverse effect on our liquidity and financial condition.

We do not maintain any business liability disruption or litigation insurance coverage for our operations, and any business liability, disruption or litigation we experience might result in our incurring substantial costs and the diversion of resources.

While business disruption insurance is available to a limited extent in China, we have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, we do not have any business liability, disruption or litigation insurance coverage for our operations of advertising and media business in China. Any business disruption or litigation may result in our incurring substantial costs and the diversion of resources.

Any negative publicity with respect to us in general or our partners may materially and adversely affect our reputation, business and results of operations.

Complaints, litigation, regulatory actions or other negative publicity that arise about the advertising industry in general or our company in particular, including on the quality, effectiveness and reliability of privacy and security practices, and advertising content, even if inaccurate, could adversely affect our reputation and client confidence in, and the use of, our solutions. Harm to our reputation and client confidence can also arise for many other reasons, including employee misconduct, misconduct of our data and content distribution channel partners, data center providers or other counterparties, failure by these persons or entities to meet minimum quality standards or otherwise fulfill their contractual obligations or to comply with applicable laws and regulations. Additionally, negative publicity with respect to our data or content distribution channel partners could also affect our business and results of operation to the extent that we rely on these partners or if marketers or marketing agencies associate our company with such partners.

If we fail to promote or maintain our brand in a cost-efficient manner, our business and results of operations may be harmed.

We believe that developing and maintaining awareness of our brand in a cost-effective manner is critical to achieving widespread acceptance of our platforms, and is an important element in attracting new clients and partners. Furthermore, we believe that the importance of brand recognition will increase as competition in our market increases. Successful promotion of our brand will depend largely on our ability to deliver value propositions to marketers and on the effectiveness of our marketing efforts. If we fail to successfully promote and maintain our brand, or incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract enough new clients or retain our existing clients and our business and results of operations can be materially and adversely affected.

We may need additional capitals for our business and future sales of our ordinary shares could cause the market price of our ordinary shares to decline.

Sales of a substantial number of shares of our ordinary shares in the public market, or the perception that these sales could occur, may depress the market price for our ordinary shares. These sales could also impair our ability to raise additional capital through the sale of our equity securities in the future. We may issue additional ordinary shares in the future and our shareholders may elect to sell large numbers of shares held by them from time to time. Our amended and restated articles of incorporation authorize us to issue up to 300,000,000 ordinary shares.

In March 2021, we filed with the SEC prospectus to issue and sell, in an at-the-market (“ATM”) offering through A.G.P./Alliance Global Partners, ordinary shares having an aggregate offering price of up to \$30 million. From March 22, 2021 through May 14, 2021, we issued and sold 1,626,327 ordinary shares through the ATM offering for net proceeds of approximately \$5.32 million. We may issue more ordinary shares through the ATM offering in the future and, therefore, it may cause the market price of our ordinary shares to decline.

Risks Relating to Our Corporate Structure

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, shareholders may have less protection for their shareholder rights than they would under U.S. law.

Our corporate affairs are governed by our Fourth Amended and Restated 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 or members of the board of directors 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, the majority of 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 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 June 30, 2021. 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.

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

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

We believe that any disclosure controls and procedures, or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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

If we fail to establish and maintain proper internal financial reporting controls, our ability to produce accurate financial statements or comply with applicable regulations could be impaired.

Pursuant to Section 404 of the Sarbanes-Oxley Act, we are required to file a report by our management on our internal control over financial reporting, including an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. However, while we remain an emerging growth company, we will not be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm and due to a transition period established by rules of the SEC for newly public companies, we are not required to include a report of management's assessment regarding internal control over financial reporting in this annual report. The presence of material weaknesses in internal control over financial reporting could result in financial statement errors which, in turn, could lead to errors in our financial reports and/or delays in our financial reporting, which could require us to restate our operating results. The material weakness identified consisted of (i) a lack of accounting staff and resources with appropriate knowledge of U.S. GAAP and SEC reporting and compliance requirements; (ii) a lack of sufficient documented financial closing policies and procedures, specifically those related to period-end expenses cut-off and accruals; (iii) inadequate controls with respect to the maintenance of sufficient documentation for, and the evaluation of the accounting implications of, significant and non-routine payment transactions. (iv) a lack of sufficient documented financial closing policies and procedures, specifically those related to period-end expenses cut-off and accruals., as defined in the standards established by the Public Company Accounting Oversight Board of the United States.

We have already taken some steps and have continued to implement measures to remediate the material weakness identified, including but not limited to providing trainings to staff, changing to a new and well-established accounting system, and continuing to monitor the internal control over financial reporting. However, we cannot assure you that we will not identify additional material weaknesses or significant deficiencies in the future.

Due to the material weakness in our internal controls over financial reporting, we conclude that our internal controls over financial reporting are ineffective and therefore investors may lose confidence in our operating results, the price of the Ordinary Shares could decline and we may be subject to litigation or regulatory enforcement actions. In addition, if we are unable to meet the requirements of Section 404 of the Sarbanes-Oxley Act, the Ordinary Shares may not be able to remain listed on the NASDAQ Capital Market.

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. We have never declared a dividend. 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 our Chinese subsidiary 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 subsidiary undergo 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.

As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with such corporate governance listing standards.

As a Cayman Islands exempted company listed on the Nasdaq Stock Market, we are subject to the Nasdaq listing standards. However, the Nasdaq Stock Market Rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Currently, we rely on home country practice with respect to certain aspects of our corporate governance. See "Item 16G. Corporate Governance." Our shareholders may be afforded less protection than they would otherwise enjoy under the Nasdaq listing standards applicable to U.S. domestic issuers given our reliance on the home country practice exception.

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.

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

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

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has been building a comprehensive system of laws and regulations governing economic matters in general. The overall effect has been to significantly enhance the protections afforded to various forms of foreign investments in China. We conduct our business primarily through our subsidiary established in China. This subsidiary is 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, customers 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.

Currently, all of our operations 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 Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued by the PRC State Administration of Taxation on December 10, 2009, or Circular 698, where a foreign investor transfers the equity interests of a PRC resident enterprise indirectly by way of the sale of equity interests of an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor should report such Indirect Transfer to the competent tax authority of the PRC resident enterprise. The PRC tax authority will examine the true nature of the Indirect Transfer, and if the tax authority considers that the foreign investor has adopted an abusive arrangement in order to avoid PRC tax, they will disregard the existence of the overseas holding company and re-characterize the Indirect Transfer and as a result, gains derived from such Indirect 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 Circular 698. At present, the PRC tax authorities will neither confirm nor deny that they would enforce Circular 698, in conjunction with other tax collection and tax withholding rules, to 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 IPO of our shares.

On February 3, 2015, the PRC State Administration of Taxation issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or SAT Public Notice 7. SAT Public Notice 7 supersedes the rules with respect to the Indirect Transfer under SAT Circular 698, but does not touch upon the other provisions of SAT Circular 698, which remain in force. SAT Public Notice 7 has introduced a new tax regime that is significantly different from the previous one under SAT Circular 698. SAT Public Notice 7 extends its tax jurisdiction to not only Indirect Transfers set forth under SAT Circular 698 but also transactions involving transfer of other taxable assets through offshore transfer of a foreign intermediate holding company. In addition, SAT Public Notice 7 provides clearer criteria than SAT Circular 698 for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. SAT Public Notice 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. 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. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions, under SAT Circular 698 and SAT Public Notice 7. For transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiary may be requested to assist in the filing under SAT Circular 698 and SAT Public Notice 7. As a result, we may be required to expend valuable resources to comply with SAT Circular 698 and SAT Public Notice 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

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 subsidiary, limit our PRC subsidiary ability to distribute profits to us, or otherwise materially and adversely affect us.

In July 2014, China’s State Administration of Foreign Exchange (“SAFE”) has promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles, or SAFE Circular 37, to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents’ Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles, or SAFE Circular 75, which ceased to be effective upon the promulgation of SAFE Circular 37. SAFE Circular 37 requires PRC residents (including PRC individuals and PRC corporate entities) to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. SAFE Circular 37 is applicable to our shareholders who are PRC residents and may be applicable to any offshore acquisitions that we make in the future.

Under SAFE Circular 37, PRC residents who make, or have prior to the implementation of SAFE Circular 37 made, direct or indirect investments in offshore special purpose vehicles, or SPVs, will be required to register such investments with the SAFE or its local branches. In addition, any PRC resident who is a direct or indirect shareholder of an SPV, is required to update its filed registration with the local branch of SAFE with respect to that SPV, to reflect any material change. Moreover, any subsidiaries of such SPV in China is required to urge the PRC resident shareholders to update their registration with the local branch of SAFE. If any PRC shareholder of such SPV fails to make the required registration or to update the previously filed registration, the subsidiaries of such SPV in China may be prohibited from distributing its profits or the proceeds from any capital reduction, share transfer or liquidation to the SPV, and the SPV may also be prohibited from making additional capital contribution into its subsidiary in China. On February 28, 2015, the SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, which became effective on June 1, 2015. Under SAFE Notice 13, applications for foreign exchange registration of inbound foreign direct investment and outbound overseas direct investment, including those required under the SAFE Circular 37, will be filed with qualified banks instead of the SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of the SAFE.

Messrs. Ban Lor and Stewart Lor are not PRC resident, thus, they are not subject to SAFE Circular 37. We have requested our shareholders that we know are PRC residents and hold direct or indirect interests in us to make the necessary applications, filings and amendments as required under SAFE Circular 37 and other related rules. As of the date of this Annual Report, all of those shareholders have completed the Circular 37 registration. However, we may not at all times be fully aware or informed of the identities of all our beneficial owners who are PRC residents, and we may not always be able to compel our beneficial owners to comply with the SAFE Circular 37 requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by, SAFE Circular 37 or other related regulations. Failure by any such shareholders or beneficial owners to comply with SAFE Circular 37 could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiary's ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

Furthermore, as these foreign exchange regulations are still relatively new and their interpretation and implementation has been constantly evolving, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant governmental authorities. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our financial condition and results of operations. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

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

In utilizing the proceeds from the offerings or any future offerings, as an offshore holding company of our PRC subsidiary, we may make loans to our PRC subsidiary and controlled PRC affiliate, or we may make additional capital contributions to our PRC subsidiary. Any loans to our PRC subsidiary or controlled PRC affiliate are subject to PRC regulations and approvals. For example, loans by us to our PRC subsidiary 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 subsidiary 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 subsidiary 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 use the proceeds of the IPO and 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 may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise in its business scope. In addition, SAFE strengthened its oversight of the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested enterprise. The use of such Renminbi may not be changed without approval from SAFE and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used for purposes within the foreign-invested enterprise's approved business scope.

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 subsidiary or controlled PRC affiliate or with respect to future capital contributions by us to our PRC subsidiary. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we receive from the offerings and 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 subsidiary 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 subsidiary are able to pay dividends in foreign currencies to us without prior approval from SAFE, by complying with certain procedural requirements. Our PRC subsidiary 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 subsidiary 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 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 subsidiaries. We do not believe that Powerbridge meets all of the conditions required for PRC resident enterprise. The Company is a company incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. For the same reasons, we believe our other entities outside of China are not PRC resident enterprises either. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body." There can be no assurance that the PRC government will ultimately take a view that is consistent with ours.

However, if the PRC tax authorities determine that Powerbridge is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises. Such 10% tax rate could be reduced by applicable tax treaties or similar arrangements between China and the jurisdiction of our shareholders. For example, for shareholders eligible for the benefits of the tax treaty between China and Hong Kong, the tax rate is reduced to 5% for dividends if relevant conditions are met. In addition, non-resident enterprise shareholders may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether non-PRC shareholders of the Company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that the Company is treated as a PRC resident enterprise.

Provided that our Cayman Islands holding company, Powerbridge, is not deemed to be a PRC resident enterprise, our shareholders who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares. However, under Circular 7, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, 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 such 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 would be obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under Circular 7, and we may be required to expend valuable resources to comply with Bulletin 37, or to establish that we should not be taxed under Circular 7 and Bulletin 37.

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 may be materially and adversely affected. These rates may be reduced by an applicable tax treaty, but 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. Any such tax may reduce the returns on your investment in our shares.

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 China’s Commerce Ministry (“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 subsidiaries 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 are subject to these regulations as our company has become 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.

Failure to make adequate contributions to various mandatory social security plans as required by PRC regulations may subject us to penalties.

PRC laws and regulations require us to pay several statutory social welfare benefits for our employees, including pensions, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing provident fund contributions. Local governments usually implement localized requirements as to mandatory social security plans considering differences in economic development in different regions. Our failure in making contributions to various mandatory social security plans and in complying with applicable PRC labor-related laws may subject us to late payment penalties. We may be required to make up the contributions for these plans as well as to pay late fees and fines. If we are subject to late fees or fines in relation to the underpaid employee benefits, our financial condition and results of operations may be adversely affected.

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 there is lack of clarity with respect to the implementation and potential penalties and fines provided in the Labor Contract Law and its implementing rules, 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.

If the chops of our PRC company and branches 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 subsidiary 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.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments, or bringing actions in China against us or our management named in the prospectus supplement based on foreign laws. It may also be difficult for you or overseas regulators to conduct investigations or collect evidence within China.

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

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

It may also be difficult for you or overseas regulators to conduct investigations or collect evidence within China. For example, in China, there are significant legal and other obstacles to obtaining information needed for shareholder investigations or litigation outside China or otherwise with respect to foreign entities. Although the authorities in China may establish a regulatory cooperation mechanism with its counterparts of another country or region to monitor and oversee cross-border securities activities, such regulatory cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of a practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or “Article 177,” which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigations or evidence collection activities within the territory of the PRC. Article 177 further provides that Chinese entities and individuals are not allowed to provide documents or materials related to securities business activities to foreign agencies without prior consent from the securities regulatory authority of the PRC State Council and the competent departments of the PRC State Council. While detailed interpretation of or implementing rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by you in protecting your interests.

Recent joint statement by the SEC and the Public Company Accounting Oversight Board (United States), or the “PCAOB,” proposed rule changes submitted by Nasdaq, and the Holding Foreign Companies Accountable Act all call for additional and more stringent criteria to be applied to emerging market companies upon assessing the qualification of their auditors, especially the non-U.S. auditors who are not inspected by the PCAOB. These developments could add uncertainties to our offering.

On April 21, 2020, SEC Chairman Jay Clayton and PCAOB Chairman William D. Duhnke III, along with other senior SEC staff, released a joint statement highlighting the risks associated with investing in companies based in or have substantial operations in emerging markets including China. The joint statement emphasized the risks associated with lack of access for the PCAOB to inspect auditors and audit work papers in China and higher risks of fraud in emerging markets.

On May 18, 2020, Nasdaq filed three proposals with the SEC to (i) apply a minimum offering size requirement for companies primarily operating in a “Restrictive Market,” (ii) adopt a new requirement relating to the qualification of management or the board of directors for Restrictive Market companies, and (iii) apply additional and more stringent criteria to an applicant or listed company based on the qualifications of the company’s auditors.

On May 20, 2020, the U.S. Senate passed the Holding Foreign Companies Accountable Act requiring a foreign company to certify it is not owned or controlled by a foreign government if the PCAOB is unable to audit specified reports because the company uses a foreign auditor not subject to PCAOB inspection. If the PCAOB is unable to inspect the company’s auditors for three consecutive years, the issuer’s securities are prohibited to trade on a national exchange. On December 2, 2020, the U.S. House of Representatives approved the Holding Foreign Companies Accountable Act. On December 18, 2020, the Holding Foreign Companies Accountable Act was signed into law.

The lack of access to the PCAOB inspection in China prevents the PCAOB from fully evaluating audits and quality control procedures of the auditors based in China. As a result, investors may be deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of these accounting firms’ audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause existing and potential investors in our Ordinary Shares to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Our auditor, Onestop Assurance PAC, the independent registered public accounting firm that issues the audit report incorporated by reference in this Annual Report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. However, the recent developments would add uncertainties to our continued listing in the U.S. and we cannot assure you whether Nasdaq or regulatory authorities would apply additional and more stringent criteria to us after considering the effectiveness of our auditor’s audit procedures and quality control procedures, adequacy of personnel and training, or sufficiency of resources, geographic reach, or experience as it relates to the audit of our financial statements.

Item 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Corporate History and Background

Powerbridge is a company that was established under the laws of the Cayman Islands on July 27, 2018 as a holding company. The Company, through its subsidiaries, is a provider of software application and technology services to corporate and government customers engaged in global trade.

For the purpose of the IPO and listing on the NASDAQ Capital Market, a reorganization of the Company's legal structure was completed on August 27, 2018. The reorganization involved the incorporation of Powerbridge, a Cayman Islands holding company, and its wholly owned subsidiary, Powerbridge HK, a holding company incorporated on July 27, 2018 under the laws of Hong Kong; and the transfer of all equity ownership of Powerbridge Zhuhai to Powerbridge HK from the former shareholders of Powerbridge Zhuhai through an investment holding company.

Prior to the reorganization, Powerbridge Zhuhai's equity interests were held by the former shareholders through an investment holding company. Powerbridge Zhuhai was incorporated on October 30, 1997 in Zhuhai, Guangdong province under the laws of the People's Republic of China. Powerbridge Zhuhai is an operating subsidiary that provides global trade software application and technology services to corporate and government customers located in China.

On August 7, 2018, the former shareholders transferred their 100% ownership interest in Powerbridge Zhuhai to Powerbridge HK, which is 100% owned by Powerbridge. After the reorganization, Powerbridge owns 100% equity interests of Powerbridge HK and Powerbridge Zhuhai. All shareholders have the same ownership interest in Powerbridge as in Powerbridge Zhuhai prior to the reorganization.

As of the date of this Annual Report, Zhuhai Powerbridge has five branches, which are located in China (Changsha, Wuhan, Nanning, Hangzhou, Jiujiang, and Xiamen) and maintain offices in Changsha, Wuhan, Naning, and Hangzhou to serve different customers in various geographic locations.

Powerbridge Cayman is the sole shareholder of Powerbridge Hong Kong, incorporated in Hong Kong on July 27, 2018, and Hongding Hong Kong, incorporated in Hong Kong on August 19, 2020. Powerbridge Hong Kong is the sole shareholder of Powerbridge Zhuhai. Powerbridge Zhuhai was incorporated on October 30, 1997 under the laws of the People's Republic of China, as a wholly-owned subsidiary of Powerbridge Hong Kong and a wholly foreign-owned entity under the PRC laws. Hongding Shenzhen was incorporated on October 21, 2020 under the laws of the People's Republic of China, as a wholly-owned subsidiary of Hongding Hong Kong and a wholly foreign-owned entity under the PRC laws. As of the date of this Annual Report, Hongding Hong Kong and Hongding Shenzhen have no business operations.

Neither Powerbridge Cayman, Powerbridge Hong Kong, nor Hongding Hong Kong is currently engaged in any active business other than acting as holding companies. We conduct our business mainly through Powerbridge Zhuhai and Hongding Shenzhen. As of the date of this Annual Report, Hongding Shenzhen has no business operations.

On April 2, 2019, our ordinary shares commenced trading on Nasdaq under the symbol "PBTS."

On June 21, 2019, the Company incorporated Wuhan Honggang Technology Co. Ltd. ("Wuhan Honggang") in Hubei province under the law of the PRC. Wuhan Honggang is 60% owned by Powerbridge Zhuhai, one of the wholly owned subsidiaries of the Company, and 40% owned by a third party. Wuhan Honggang is engaged in application development service and Internet of Things ("IOT") system developments.

On June 28, 2019, Powerbridge Zhuhai entered into a joint venture agreement (the "JV Agreement") with Guangdong Guangrui Network Technology Co., Ltd. ("Gaungrui") to form the joint venture through a newly-formed corporation named Shantou Hongrui Information Technology Co., Ltd. ("Hongrui") to undertake exploration for technology information services in the area of Shantou and Guangdong. Powerbridge Zhuhai and Guangrui each initially owned 51% and 49% equity interest in Hongrui. On July 1, 2019, Powerbridge Zhuhai, Guangrui, and Haoqing Su entered into a supplemental agreement to the JV Agreement for equity interest alternation, pursuant to which Hongrui was 51% owned by Powerbridge Zhuhai, 43% owned by Guangrui, and 6% owned by Qaoqing Su. On August 19, 2019, Hongrui was established in Guangdong province under the law of the PRC. On January 14, 2020, Haoqing Su entered into certain share transfer agreements with Xiaoyu Liu and Hengqin Baisheng Investment Partnership (General Partnership) ("Hengqin"), pursuant to each of which, Haoqing Su agreed to transfer 3% equity interest of Hongrui for RMB 150,000. On the same day, Guangrui entered into a certain share transfer agreement with Xiaoyu Liu to transfer 18% equity interest of Hongrui for RMB 900,000. As a result of the share transfer agreements, Hongrui was 51% owned by Powerbridge Zhuhai, 25% owned by Guangrui, 3% owned by Hengqin, and 21% owned by Xiaoyu Liu. On May 21, 2020, Powerbridge Zhuhai, Guangrui, Hengqin, and Xiaoyu Liu entered into another supplemental agreement to the JV Agreement for equity interest alternation, pursuant to which Hongrui is currently 38% owned by Powerbridge Zhuhai, 35% owned by Guangrui, 15% owned by Hengqin, and 12% owned by Xiaoyu Liu. Shantou Hongrui is engaged in IT system development and integration service.

On September 2, 2019, Powerbridge Zhuhai, together with two unrelated entities, incorporated Chongqing Powerbridge Zhixin Technology Co., Ltd. ("Chongqing Powerbridge") with Powerbridge Zhuhai holding 45% equity interest in Chongqing Powerbridge. By the date of this report, Chongqing Powerbridge has not commenced its operations and Powerbridge Zhuhai has not injected any capital to the business. Chongqing Powerbridge is engaged in IT system development and technical consulting service.

On September 29, 2019, Powerbridge Zhuhai incorporated Ningbo Powerbridge Pet Products E-commerce Co. Ltd. (“Ningbo Powerbridge”) in Zhejiang province under the law of the PRC. Ningbo Powerbridge is 60% owned by the Powerbridge Zhuhai and 40% owned by two unrelated entities. Ningbo Powerbridge is engaged in development of e-commerce systems for pet industry. As of the date of this Annual Report, Ningbo Powerbridge is dormant and has no operation.

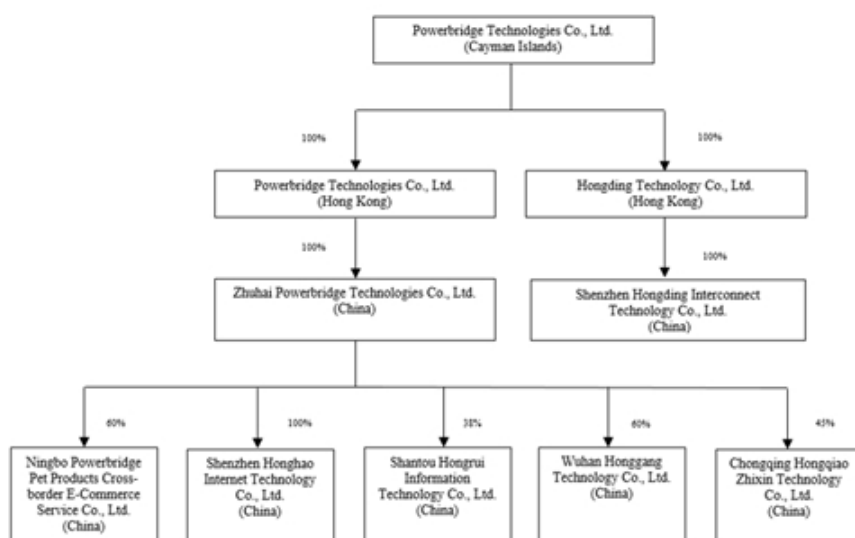
On July 28, 2020, Powerbridge Zhuhai incorporated Shenzhen Honghao Internet Technology Co., Ltd. (“Shenzhen Powerbridge”) in Guangdong province under the law of the PRC. Shenzhen Powerbridge is 100% owned by the Powerbridge Zhuhai. Shenzhen Honghao is engaged in the outdoor advertising business. Powerbridge Hong Kong, incorporated a fully owned subsidiary -Shenzhen Hongding Interconnect Technology Co., Ltd in Guangdong province under the law of the PRC.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and will file reports, registration statements and other information with the SEC. The Company’s reports, registration statements and other information can be inspected on the SEC’s website at www.sec.gov and such information can also be inspected and copies ordered at the public reference facilities maintained by the SEC at the following location: 100 F Street NE, Washington, D.C. 20549. You may also visit us on the World Wide Web at www.powerbridge.com. However, information contained on our website does not constitute a part of this annual report.

Corporate Information

Our principle executive offices are located at 1st Floor, Building D2, Southern Software Park, Tangjia Bay, Zhuhai, Guangdong 519080, China. Our telephone number is +86-756-339-5666. Our principle website address is www.powerbridge.com. The information on our website is not part of this Annual Report.

The following diagram illustrates our corporate structure as of the date of this Annual Report.



*certain third party shareholders of Shantou Hongrui and Zhixin signed consents with the Company for the year ended December 31, 2020, which agreed that the Company has the power and control to direct the activities that most significantly impact Shantou Hongrui and Zhixin and they unconditionally vote by consensus with the Company in all the board decisions. As such, the Company consolidates the financial results of Shantou Hongrui and Zhixin based on the voting power.

Compliance with Foreign Investment

All limited liability companies formed and operating in the PRC are governed by the Company Law of the People’s Republic of China, or the Company Law, which was amended and promulgated by the Standing Committee of the National People’s Congress on October 26, 2018 and came into effect on the same day. Foreign invested enterprises must also comply with the Company Law, with exceptions as specified in the relevant foreign investment laws. Under our corporate structure as of the date of this Annual Report, 100% of the equity interests of Powerbridge Zhuhai are entirely and indirectly held by our company through Powerbridge HK. Therefore, Powerbridge Zhuhai, a wholly foreign-owned enterprise (“WFOE”) of Powerbridge HK, should be regarded as a foreign-invested enterprise and comply with both the Company Law and other applicable foreign investment laws.

With respect to the establishment and operation of WFOEs, the MOFCOM, and the National Development and Reform Commission, or NDRC, promulgated the Catalogue of Industries for Guiding Foreign Investment, or the Catalogue (2017 Version), as amended on June 28, 2017, which came into effect on August 28, 2017. The Catalogue divides industries for foreign investment into three categories: encouraged, restricted and prohibited. Those industries not set out in the Catalogue shall be classified as industries permitted for foreign investment. The Catalogue serves as the main basis for management and guidance for the MOFCOM to manage and supervise foreign investments to PRC. In addition, in June 2018, MOFCOM and NDRC promulgated the Special Management Measures (Negative List) for the Access of Foreign Investment, or the Negative List, effective July 2018. The Negative List expands the scope of permitted industries by foreign investment by reducing the number of industries that fall within the Negative List where restrictions on the shareholding percentage or requirements on the composition of board or senior management still exists. According to the Catalogue and the Negative List, IT services, the main business that our PRC subsidiary presently conduct, are neither restricted nor prohibited.

Emerging Growth Company Status

As a company with less than \$1.07 billion in revenue during our last fiscal year, we qualify as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act, or JOBS Act, enacted in April 2012, and may take advantage of reduced reporting requirements that are otherwise applicable to public companies. These provisions include, but are not limited to:

- being permitted to present only two years of audited financial statements and only two years of related Management’s Discussion and Analysis of Financial Condition and Results of Operations in our SEC filings;
- not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act;
- reduced disclosure obligations regarding executive compensation in periodic reports, proxy statements and registration statements; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We may take advantage of these provisions until the last day of our fiscal year following the fifth anniversary of the date of the first sale of our common equity securities pursuant to an effective registration statement under the Securities Act of 1933, as amended. However, if certain events occur before the end of such five-year period, including if we become a “large accelerated filer,” our annual gross revenues exceed \$1.07 billion or we issue more than \$1.00 billion of non-convertible debt in any three-year period, we will cease to be an emerging growth company before the end of such five-year period.

In addition, Section 107 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We have elected to take advantage of the extended transition period for complying with new or revised accounting standards and acknowledge such election is irrevocable pursuant to Section 107 of the JOBS Act.

Foreign Private Issuer Status

We are incorporated in the Cayman Islands. Less than 50% of our outstanding voting securities are held by U.S. residents and none of the following three circumstances applies: the majority of our executive officers or directors are U.S. citizens or residents; more than 50% of our assets are located in the United States; or our business is administered principally in the United States. Therefore, we are a “foreign private issuer,” as defined in Rule 405 under the Securities Act and Rule 3b-4(c) under the Securities Exchange Act of 1934, as amended (“Exchange Act”). 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.

The Initial Public Offering

On April 4, 2019, the Company completed its initial public offering of 1,750,000 Ordinary Shares, \$0.00166667 par value per share. The Ordinary Shares were sold at an offering price of \$5.00 per share, generating gross proceeds of approximately \$8.75 million, and net proceeds of approximately \$7.8 million. The registration statement relating to the IPO also covered the underwriters’ common stock purchase warrants and the Ordinary Shares issuable upon the exercise thereof in the total amount of 122,500 Ordinary Shares. Each five-year warrant entitles the warrant holder to purchase the Company’s shares at the exercise price of \$5.50 per share and is not exercisable for a period of 180 days from March 28, 2019. Our Ordinary Shares began trading on the NASDAQ Capital Market on April 2, 2019 under the ticker symbol “PBTS”.

On May 10, 2019, the Company closed on the exercise in full of the over-allotment option to purchase an additional 262,500 Ordinary Shares of the Company by Maxim Group LLC and The Benchmark Company, LLC, the representatives of the underwriters in connection with and the joint book running managers of the Company’s IPO (“Underwriters”), at the IPO price of \$5.00 per share. As a result, the Company has raised gross proceeds of approximately \$1.31 million, in addition to the IPO gross proceeds of \$8.75 million, or combined gross proceeds in this IPO of approximately \$10.06 million, before underwriting discounts and commissions and offering expenses.

B. Business Overview

Overview

We are a provider of software application and technology solutions and services to corporate and government customers primarily located in China. We introduced global trade software applications when we launched our operations in 1997 with a vision to make global trade operations easier for our customers. Since our inception, we have continued to innovate by developing technologies that enable us to successfully deliver a series of solutions and services that address the evolving and changing needs of our corporate and government customers. Our mission is to make global trade easier by empowering all players in the ecosystem.

Our customers are corporate and government organizations engaged in global trade. Our corporate customers are import and export companies, manufacturers engaged in international trade, as well as logistics and other service providers. Our government customers include customs and other government agencies that oversee the flow of goods and services across borders, as well as government authorities and organizations that manage and operate free trade and bonded trade zones, ports and terminals, and other international trade facilities.

Global trade involves complicated and cumbersome processing, manual handling of voluminous documents, extended and complex cross-organization workflows as well as a great number of business and government players in the global trade ecosystem. We estimated that a typical process for an export shipment in China may involve 1 exporter, 8 government agencies and authorities and 12 various logistics and financial service providers with more than 60 persons engaged in 13 different work processes that generate more than 55 regulatory compliance and trade logistics documents and 150 information or message exchanges.

Our customers are facing increasing challenges as the world's trade ecosystems continue to grow in size and complexity. Costs associated with global trade, such as logistics performance, border control and international connectivity remain high. Potential savings from more collaborative and efficient trade processes could reduce the costs of global trade significantly. The need for greater efficiency and cost savings are driving the transformative shift for participants in global trade to become more connected and collaborative.

Our comprehensive and robust solutions and services include *Powerbridge System Solutions* and *Powerbridge SaaS Services* with more than 40 solutions and services deployable on premise and in the cloud. Leveraging our deep domain knowledge and strong industry experience, we provide a series of differentiated and robust solutions and services that address the mission critical needs of our corporate and government customers, enabling them to handle and simplify the complexities of global trade operations, logistics and compliance.

Powerbridge System Solutions

We provide *Powerbridge System Solutions* to our corporate and government customers engaged in global trade, including businesses and manufacturers across a broad range of industries, government agencies and regulatory authorities, as well as global trade logistics and other service providers. *Powerbridge System Solutions* enable our customers to streamline their trade operations, trade logistics and regulatory compliance, consisting of *Trade Enterprise Solutions* and *Trade Compliance Solutions* which have been in service since our first introduction twenty years ago and *Import & Export Loan and Insurance Processing* which have recently been introduced to a selected group of customers.

Powerbridge SaaS Services

We began offering our *Powerbridge SaaS Services* (software-as-a-service) in 2016 and are continually developing and expanding our SaaS services that provide our corporate and government customers with significant benefits, including better use of resources, a lower cost of operations, easier document handling, faster processing time as well as higher logistics and compliance connectivity and efficiency. *Powerbridge SaaS Services* include *Logistics Service Cloud* and *Trade Zone Operations Cloud* which are in service, and *Inward Processed Manufacturing Cloud*, *Cross-Border eCommerce Cloud* and *Import & Export Loan and Insurance Processing Service Cloud* which are in development.

Powerbridge BaaS Services

We have begun offering our cloud-based *Powerbridge BaaS Services* (blockchain-as-a-service) with designated use case for limited government customer in June 2019 and we have generated limited revenue from it. We continue developing our BaaS Services for market commercialization. Blockchain technology is emerging as a major disruptive force across many industries including those involved in global trade. We believe that blockchain technology could allow our customers to conduct business in more synchronized and collaborative ways to substantially increase operational efficiency and reduce trade costs across the global trade supply chain. *Powerbridge BaaS Service* includes *Compliance Blockchain Services* and *Supply Chain Blockchain Services*.

Our solutions and services are built from our multiple proprietary technology platforms which are developed based on industry leading open source infrastructure technologies. Our technology platforms include *Powerbridge System Platform* and *Powerbridge SaaS Platform*, which are designed for high-performance reliability, flexibility and scalability, allowing us to expand our solutions and services rapidly and efficiently to consistently address the needs of our corporate and government customers. Our *Powerbridge BaaS Platform* became available in June 2019.

Powerbridge System Platform consists of modular technology and business components that enable us to provide mission critical applications and solutions in trade operations, trade logistics and regulatory compliance to our corporate and government customers.

Powerbridge SaaS Platform is the technology infrastructure upon which we are developing our SaaS services designed to provide on-demand services in trade operations, trade logistics and regulatory compliance with a multi-tenant and microservice architecture.

Our BaaS services are built on top of our *Powerbridge Blockchain Platform* that is designed to allow the customs agency to increase the effectiveness of risk assessments and interventions in monitoring and controlling the flow of goods, documents, and vendors for cross border trade events and transactions, with an enhanced level of regulatory information transparency and synchronization among customs agencies and other government authorities.

We intend to continue leveraging our industry expertise and product knowledge with the best use of emerging and disruptive technologies such as big data, artificial intelligence and Internet of Things to enhance our core technology capabilities and continually increase the scope of our solutions and services to our customers.

Our corporate and government customers include (i) international trade businesses and manufacturers, (ii) government agencies and authorities, and (iii) logistics and other various service providers. We currently derive our revenues from three sources: (1) revenue from application development services generated from *Powerbridge System Solutions*, which require us to perform services including project planning, project design, application development and system integration based on customers' specific needs. These services also require significant production and customization; (2) revenue from consulting and technical support services primarily generated from *Powerbridge System Solutions*, and (3) revenue from subscription services generated from *Powerbridge SaaS Services*. We currently generate most of our revenues from application development services, which represented 82.5% and 78.2% of total revenue in fiscal 2020 and 2019, respectively. Revenue from consulting and technical support services represented 14.2% and 16.5% of total revenue in fiscal 2020 and 2019, respectively. Revenue from subscription services represented 3.3% and 5.3% of total revenue in fiscal 2020 and 2019, respectively. For the fiscal years ending December 31, 2020 and 2019, our revenues were \$26.7 million and US\$20.1 million, respectively.

Expansion Into Advertising and Media

Since October 2020, we started to implement our plan to build a network of digital display such as LCD screens and operate an advertisement platform in Shenzhen, China initially, and then expand to the Greater Bay Area of China. We believe that there is a substantial market opportunity to operate an advertising and media technology platform in the Greater Bay Area of China. We will pivot on new media business with display advertising in various high traffic advertising locations such as residential and office buildings, commercial parking garages, and elevators in residential and office buildings.

As of the date of this Annual Report, we have not started the management of digital displays and have not generated any revenue under the outdoor advertising business. Due to uncertainties of COVID-19 in the media business development, the Company entered into the Second Supplemental Agreement and the Third Supplemental Agreement to the with Kezhi on May 12, 2021, and May 16, 2021. Pursuant to the Third Supplemental Agreement, both parties agreed that we would not acquire the management rights and advertising publishing rights previously granted under the relevant agreement over the outdoor advertisement space and the amount paid to Kezhi shall be deemed as the Company's working capital loan to Kezhi over two years and the repayment of loan is guaranteed by a third party and is required to be repaid with a specific annual payment plan over two years. Nevertheless, we will continue prudently to explore any possibilities in the media segment,

As of the date of this Annual Report, we had a total of 236 full-time employees, of which 106 are in research and development, 39 are in sales and marketing, 52 are in technical and customer services, and 39 are in general administration.

Our Opportunity

We believe the need for global trade software application and technology services will continue to grow, driven by the continuing growth in China's global trade volume and the rapid advancement of the Belt & Road Initiative ("B&R"). The convergence of disruptive technologies and emergence of blockchain technology will accelerate the drive for organizations engaged in global trade to increasingly adapt at scale to new technologies as they mature and become more widely available.

We intend to address the subsets of three technology markets: the traditional enterprise software market in China which we have been servicing since our inception, the SaaS application market in China which we began servicing in 2016, and the blockchain applications market for which we have begun to implement the BaaS services with designated use since June 2019.

According to Techvio, an industry research and consulting firm with offices located around the world, the market size in global trade management software of 2019 is \$334.5 million and is expected to grow to \$416.23 million in 2024.¹

According to the market report entitled "Blockchain Technology Market Size By Providers (Infrastructure Provider, Application Provider, Operators), By Application (Smart Contract, Payment & Wallet, Digital Identity, Exchange, Compliance & Risk Management), By End-use (BFSI, Government, Healthcare, IT Service, Media & Entertainment, Transportation & Logistics) Industry Analysis Report, Regional Outlook, Growth Potential, Competitive Market Share & Forecast, 2019 – 2025" published in November 2019, blockchain technology market size surpassed USD 488 million in 2018 and is predicted to grow at more than 69% CAGR between 2019 and 2025².

Our Competitive Strengths

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors:

- **Global Trade Software Application Pioneer.** We introduced software applications for international trade companies when we launched our operations in 1997. Since our inception, we have continued to innovate by developing technologies that enable us to consistently and successfully deliver a series of solutions and services that address the evolving and changing needs of our customers.

¹ <https://www.technavio.com/talktous?report=IRTNTR22765&type=sample&rfs=epd&src=search>

² Blockchain Technology Market 2019-2025 | Global Report; Published Date: November 2019 | 259 Pages | Report ID: GMI2194 (From Global Market Insights) <https://www.gminsights.com/industry-analysis/blockchain-technology-market>

- **Deep Domain Knowledge and Industry Expertise.** We have gained and developed deep domain knowledge and industry expertise from over twenty years of experience in service, which is built into and will continue to contribute to the robust and differentiated capabilities of our solutions and services. We believe domain knowledge and industry expertise is a significant competitive barrier due to the complex nature of global trade.
- **Solid and Diversified Customer Base.** Our corporate and government customers include global trade businesses and manufacturers across a broad range of industries, government agencies and authorities as well as logistics and other service providers. Our solid customer base enables us to continually cross sell our solutions and services and to expand our market share.
- **Comprehensive and Robust Product Portfolio.** Our proven track record with our customers demonstrates the strengths in our comprehensive and robust solution and service portfolio that is built to handle the complexities of global trade business. We continue to leverage disruptive technologies to expand the breadth and adaptability of our portfolio of offerings to service a wider range of customers.
- **Mission-Critical System That is Difficult to Replace.** Because our solutions and services address the mission-critical needs in global trade, our customers depend on our solutions and services for managing their regulatory compliance and trade logistics operations. Once deployed, our solutions and services become a mission-critical system that is often deeply entrenched into their core technology and operational infrastructures.
- **Extensive Experience for the Belt & Road.** The B&R has catalyzed substantial development for improving regulatory compliance and trade logistics in China. We have been providing our solutions and services to help our customers achieve their objectives in this regard. Our extensive experience will enable us to efficiently expand into international markets which we intend to target as B&R accelerates in these markets³.
- **Strong Brand Recognition and Industry Resources.** We have built a trusted brand with a long history and a proven track record of delivering value to our customers. We believe our brand, reputation and scale as well as our extensive network of industry and government resources enable us to capture substantial growth potential as our corporate and government customers continue to grow and evolve.
- **Solid Foundation for Developing Blockchain Applications.** Blockchain technology is promising for business but its adoption is challenging. It requires not only technology and product expertise but also the ability to integrate and bring all players to adapt and participate. We believe we are capable of utilizing blockchain for global trade by leveraging our strong domain knowledge, product expertise and industry resources.
- **Scalable Business Model with a Prudent Approach.** Our solutions and services are highly adaptable, scalable and supported by our flexible technology infrastructures, enabling us to efficiently expand our customer base. In addition, we are taking a prudent approach by combining traditional technologies and disruptive technologies because we believe the adoption and transformation of new technologies will take considerable time and effort.
- **Experienced and Visionary Management Team.** Our success is attributable to the deep industry expertise and proven track-record of our experienced management. We were founded twenty years ago with a vision to make global trade operations easier, and since then, we have successfully demonstrated our abilities. We believe our management's strong execution capability is among the best in our industry.

³ Belt and Road Portal, <https://eng.yidaiyilu.gov.cn>

Our Growth Strategy

We plan to grow and expand our business by pursuing the following growth strategies:

- **Increase Revenue with Existing Customers.** We have a large number of corporate and government customers that currently utilize our global trade software application and technology services. We intend to increase our revenue by leveraging and broadening our relationships with existing customers by helping them identify new use cases for our existing solutions and services; and solving more problems for them by providing new solutions and services.
- **Accelerate Research and Development.** We used a portion of the proceeds from the IPO towards our research and development to accelerate the development of disruptive technology-enabled global trade software application and technology solutions and services. We believe disruptive technology-enabled applications such as SaaS and BaaS services will enable us to capture significant market share in China and abroad.
- **Expand Our Solution and Service Offerings.** Global trade involves complex and cumbersome processes in trade operations, trade logistics and regulatory compliance with many players in the global trade ecosystem. Each player is operating in different settings and with different objectives. We plan to expand our offerings and focus on solutions and services that enable our customers to better connect and collaborate.
- **Increase Market Penetration.** We plan to leverage our deep domain knowledge, industry experience and product expertise to increase our market penetration with a deeper market coverage and a broader geographical reach in China. We intend to continually strengthen our sales and marketing capabilities and build strategic partnerships with government and corporate organizations to further drive sales.
- **Expand into International Markets.** China's B&R has brought significant opportunities for Chinese organizations such as infrastructure builders and logistics service providers. We plan to expand into international markets by "piggybacking" on these organizations as they bring their products and services to the B&R countries. We believe this approach will mitigate risk, reduce cost and minimize time-to-market for entering new markets.
- **Pursue Strategic Acquisitions and Investments.** We plan to pursue strategic acquisitions and investments in selective technologies and businesses that will enhance our technology capabilities, expand our offerings and increase our market penetration. We believe our strategic acquisition and investment strategy is critical for us to accelerate our growth and strengthen our competitive position.

Our Solutions

We provide software applications and technology solutions and services to corporate and government organizations involved in global trade. We introduced our first global trade software application in 1998 and have since substantially expanded the scope of our solutions and services to address deeper and broader customer needs.

Our solutions and services currently include *Powerbridge System Solutions* and *Powerbridge SaaS Services*; we are also designing and developing *Powerbridge BaaS Services*.

We have been servicing our corporate and government customers with *Powerbridge System Solutions* since our introduction of this solution series twenty years ago. Our comprehensive solutions and services address the mission critical needs in global trade for our customers, enabling them to optimize and streamline their trade operations, trade logistics and regulatory compliance.

In 2016, we introduced *Powerbridge SaaS Services* and are continually expanding the scope our SaaS services. *Powerbridge SaaS Services* is a software-as-a-service designed to enable businesses and government organizations with significant benefits, including better use of resources, lower cost of operations, easier documentation handling, faster processing time as well as higher logistics and compliance and connectivity and efficiency.

We began offering our cloud-based *Powerbridge BaaS Services* (blockchain-as-a-service) with designated use case for limited government customer in June 2019 and have not generated any revenue from it yet. We continue developing our BaaS Services for market commercialization. Blockchain technology is emerging as a major disruptive force across many industries, including those involved in global trade. We believe that blockchain technology could allow our customers to conduct business in more synchronized and collaborative ways to substantially increase operational efficiency and reduce trade costs across the global trade supply chain. *Powerbridge BaaS Service* includes *Compliance Blockchain Services* and *Supply Chain Blockchain Services*.

Our solutions and services are built from our multiple proprietary technology platforms: *Powerbridge System Platform* and *Powerbridge SaaS Platform*, which are designed for high-performance reliability, flexibility and scalability, allowing us to expand our solutions and services rapidly and efficiently to consistently address the needs of our corporate and government customers. Our *Powerbridge BaaS Platform* became available in June 2019.

Powerbridge System Solutions

Overview of Powerbridge System Solutions

We provide *Powerbridge System Solutions* to our corporate and government customers engaged in global trade, including import and export businesses, manufacturers, government agencies and regulatory authorities, as well as trade logistics and other service providers.

Powerbridge System Solutions include *Trade Compliance Solutions* and *Trade Enterprise Solutions* which have been in service since our first introduction twenty years ago and *Import & Export Loan and Insurance Processing* which have recently been introduced to a selected group of customers.

Trade Compliance Solutions and *Trade Enterprise Solutions* are implemented and deployed on premises largely as customized services capable of integrating with applications, systems, equipment and facilities from customers and third-party providers.

Import & Export Loan and Insurance Processing are deployed on browser/server and client/server environments.

Strengths of Powerbridge System Solutions:

We believe *Powerbridge System Solutions* provide the following core benefits for our customers:

- Our *Trade Compliance Solutions* enable government agencies and regulatory authorities greater control and security, better use of resources, higher duty collection, faster processing time and higher compliance efficiency in servicing global trade businesses and logistics service providers.
- Import and export businesses and manufacturers in diverse vertical industries use our *Trade Enterprise Solutions* to manage business operations, simplify trade processes, reduce document handling, minimize operational cost and increase overall productivity.
- Our newly introduced *Import & Export Loan and Insurance Processing* is designed to facilitate and streamline global trade related loan and insurance processes. It enables businesses, financial and insurance service involved in global trade to reduce workflow complexity, processing time and operational cost while increase processing efficiency.

Trade Compliance Solutions

Trade Compliance Solutions are a series of regulatory compliance solutions and services for government agencies and regulatory authorities for managing trade zones, optimizing port control, streamlining customs clearance, accelerating cross-border processing, and expanding Chinaport services, which include the following:

Trade Zone Compliance. We provide *Trade Zone Compliance* to government agencies and authorities such as customs for regulating cross-border flow of goods and services and trade facility authorities for managing the trade zones, including bonded traded zones, free trade zones and other regulated trade zones. Our solution allows our government customers to streamline compliance and business processes and automate document processing and exchange as well as manage and regulate all operational activities in the trade zones, including goods and cargo flows, logistics and warehousing, and inward processing manufacturing.

Port Compliance & Logistics. Import and export ports include ocean, air, rail, river, highway and cross-border ports. Port operations involve complex and cumbersome processes with many players involved, including port and terminal authorities, customs and other government agencies, import and export businesses and cargo owners, transport vessels and vehicle operators, customs and forwarding agents and various logistics service providers. We provide *Port Compliance & Logistics* to all players to streamline compliance and logistics processes, which enables rapid and efficient handling of goods and documents.

Customs Clearance. We provide *Customs Clearance* to customs and other government agencies such as customs and inspections to regulate cross-border flow of goods and services for regulatory compliance operations and control. Our solution enables our government customers to streamline customs clearance processes, increase fraud detection capabilities, and enhance duty collections, with featured applications including single window operations, clearance compliance and processing, import and export goods inspection, inward processed manufactured goods clearance, cross-border clearance as well as risk and security control and duty processing.

Cross-Border Processing. We provide *Cross Border Processing* to the customs agency, quarantine and inspection agency and other government agencies and authorities for managing and regulating commodity and merchandise trades at designated trade markets or areas at cross-borders between China and its neighboring countries. Our solution enables government agencies and authorities to effectively and efficiently manage all cross-border trade operations, including trader registration, merchandise inspection, customs processing, vehicle control and checkpoint operations.

Chinaport Services. Chinaport is an import and export technology and data platform supported by sixteen major government ministries and bureaus, including China Customs, MOC, Ministry of Industry and Information Technology, Ministry of Transportation and State Administration of Foreign Exchange. Chinaport provides services to port authorities for data sharing and online verifications and to trade businesses for import and export processing. We offer customized solutions and services to Chinaport organizations at national and local levels, engaging in project designing and planning, system and platform development, system maintenance and customer service for multiple Chinaport strategic initiatives and programs.

Smart Command. Government agencies and authorities such as customs and trade facility authorities use *Smart Command* for more effective managing and regulating trade compliance and trade logistics activities under their supervision. Our smart command dashboard integrates key performance data from structured and unstructured data sources. Our visualization applications enable data display in real time on a single large multi-screen interface with three-dimensional features. Our solution provides intelligent data in an intuitive and timely manner to enable the operators and decision makers to make informed decisions.

Trade Enterprise Solutions

We provide *Trade Enterprise Solutions* to businesses, manufacturers and inward processed manufacturing companies involved in global trade. Our solutions provides a suite of enterprise management applications that allow our customers to streamline their global trade business and operations with features and functionalities including business and process operations, inventory and warehousing control, project execution and management, customs clearance processing and all other compliance and logistics processing.

Inward processed manufacturing companies use imported raw materials, components and parts, packing and other materials to produce finished products for exporting. Inward processed manufacturing is a complicated and extended process that is highly regulated. We provide a series of applications specific to inward processed manufacturing companies to help streamline and automate their operations with features and functionalities including bonded goods verification, bonded logistics record keeping, digital manual processing and customs data management.

Import & Export Loan and Insurance Processing

We are introducing *Loan Processing Service* to import and export businesses, financial institutions such as commercial banks and technology-enabled financial service providers to facilitate and expedite the transaction and execution process for trade related loans. Our service are designed for document handling, loan application and approval, contract management, lending and repayment processing, and collateralized asset processing. The various types of loan processing services include trade credit loans, factoring loans, bonded goods loans, and duty refund loans.

Our *Insurance Processing Service* is newly introduced to facilitate and streamline the import and export related insurance processing and executing process for businesses and trade insurance providers involved in global trade. Our service facilitates the processing for insurance selection, insurance estimation, application processing and approval, customs declaration verification, insurance policy issuance, and policy modification and cancellation for a variety of global trade insurance policies including trade duty guarantee insurance, export risk insurance, transportation and logistics insurance.

Powerbridge SaaS Services

Overview of Powerbridge SaaS Services

In 2016, we introduced *Powerbridge SaaS Services* (software-as-a-service) designed for corporate and government organizations involved in global trade, including import and export businesses and manufacturers, government agencies and regulatory authorities, cross-border eCommerce operators, as well as logistics and other service providers.

Our services are designed to be deployed rapidly via internet browsers and mobile devices, and can be supported through designated data centers and commercially available cloud platform services that provide infrastructure as a service for servers, storage, networking and database.

Strengths of Powerbridge SaaS Services

We believe our services encompass the following core advantages:

- *Lower total cost of ownership.* Unlike the traditional software model, our on-demand services enable our customers to have access anytime and anywhere without the upfront spending in software and hardware.
- *Rapid deployment and configuration.* Our services are designed to be deployed and configured rapidly through our application programming interfaces.
- *Flexible and scalable.* Our flexible and extensible architecture enables us to offer services that are scalable and adjustable to quickly address the different needs of our diverse group of customers.
- *Reliable and secure.* Our multi-tenant and microservice technology architectures allow us to design our services to provide our customers with a high level of performance, reliability and security.
- *Intuitive and ease of use.* Our services are designed be intuitive and easy to use with interfaces that are simple and user friendly. Our users are able to learn and use our services without specialized training.

Logistics Service Cloud

Logistics Service Cloud services are used by import and export logistics service providers such as freight forwarding agent companies who organize and arrange for air, ocean or land shipments. Our services allow our logistics service customers to minimize paperwork handling, reduce processing time, simplify workflow and increase performance efficiency by streamlining the import and export freight forwarding process and by facilitating digital exchange of information and documents among all players engaged in the freight forwarding process.

Our services enable our customers to connect and synchronize with the applications and systems of cargo owners, cargo depots and terminals, transportation and carrier companies and regional customs agencies for rapid exchange and sharing of information and data. Our customers can complete the freight arrangement process to minimize paper document handling that is often tedious, error-prone and time consuming. Electronic processing of customs declaration, reporting and approval through our data exchange system further expedites the freight forwarding process.

We are continually expanding the features and functionalities of our services to reach a broader range of our logistics service customers. Our core services provide features and functionalities including digital document exchange and processing among freight forwarders, cargo owners, cargo terminals, transportation carriers and local customs for a variety of tasks, including transport booking confirmation, cargo manifests and waybills processing, cargo status reporting at regulated depots and terminals, unloading and loading reporting, document receipt and message handling.

Trade Zone Operations Cloud

Our newly introduced *Trade Zone Operations Cloud* is designed for all businesses operating in regulated bonded and free trade zones, including importers and exporters, manufacturers engaged in global trade, inward processed manufacturers, cross-border eCommerce operators and logistics service providers as well as government zone management authorities. Our services are designed to enable businesses to streamline their operations in the zones and allow authorities to effectively manage the zones. Our services are integrated with the systems from businesses, government authorities, logistics service providers and other third parties.

Businesses and logistics service providers use our services to run and manage their daily operational, compliance and logistics activities, including commodity flows of bonded and non-bonded goods, operations record declaration and verification, goods display and business transaction, bonded to non-bonded conversion, inward processed operations and materials management, zone in-and-out processing, cross-border eCommerce operations and compliance as well as customs declaration and clearance processing.

Our services are provided to government zone management and operating authorities as a supplement to their management and operations systems for a variety of regulatory and management operations, including checkpoint verification and release, logistics planning and allocation, contract and settlement management as well as document handling and performance data analysis. We are expanding our services using artificial intelligence and IoT technologies and applications to enhance the government's capabilities in checkpoint and zone security, vehicle monitoring and control, and smart command operations.

Inward Processed Manufacturing Cloud

We are developing our *Inward Processed Manufacturing Cloud* services designed for inward processed manufacturing and trade companies who use imported raw materials, components and parts, packing and other materials to produce finished products for exporting. Our services are being developed to allow our customers to streamline and optimize their logistics and compliance operations in bonded or non-bonded environments. Our services are being designed to integrate with the systems from inward processed businesses, government authorities and agencies, and logistics service providers. Our services have recently been made available to selected customers.

Inward processed manufacturing and trade businesses may use our services to perform a variety core logistics and compliance works, including digital handbook and manual declaration, material and component usage management, customs code revision and update, ledger maintenance, authorized economic operators services, production related work order based declaration, import and export customs declaration and processing, bonded goods operations and compliance as well as material and warehousing logistics management.

Our services are designed to connect and synchronize with regional customs and other authorities through their localized single window platforms, customs compliance and clearance systems, and Chinaport systems and applications, allowing us not only service our inward processed and trade businesses effectively, but also offer value-added services to the government authorities by streamlining the work order based manufacturing data verification process as well as providing insightful inward processed manufacturing related operational and compliance analytics using big data technologies.

Cross-Border eCommerce Cloud

Our *Cross-Border eCommerce Cloud* is being developed for cross-border eCommerce operators, logistics service providers and payment and settlement service providers for rapid and efficient handling of the import and export process for couriered consumer merchandise and products. Our services are aimed at address the unique and challenging logistics, compliance and settlement needs of our customers, allowing them to reduce workflow complexities, minimize processing time all the while increase customs clearance and overall productivity. Our services have currently been available for Zhuhai-Macao cross border trade only and we have been working to realize the commercialization of our cross-border eCommerce services.

Our services are being designed to integrate with the platforms, systems and applications from all players involved in the cross-border eCommerce process, including those from cross-border eCommerce operators, logistics service providers, payment and settlement service providers as well as government agencies and authorities. Our services should enable the players to exchange and share information and data for streamlining the cross-border process as well as to derive intelligent insight from the trade data for better performance and decision making.

Our services are being designed to encompass all core steps throughout the entire cross-border eCommerce process with features and functionalities, including identity authentication of eCommerce operators, customs declaration and verification, merchandise inspection and approval, data verification and exchange, customs clearance declaration and processing, logistics handling and tracking, compliance status inquiry and notification via mobile devices, duty payment and tariff refund processing, government data analytics as well as regulatory information announcements.

Import & Export Loan and Insurance Processing Cloud

Import & Export Loan and Insurance Processing Cloud is being designed and developed for import and export businesses, commercial banks, technology-enabled financial service providers and trade insurance providers. Our services will enable us to facilitate and simplify the trade related loan and insurance processes as well as optimize the value of matching trade businesses to financial and insurance products to provide credit and risk assessment services for the financial service providers. We plan to incorporate the use of big data, artificial intelligence and other technologies into our services.

Global trade businesses, financial service providers, and trade insurance companies may use our services to streamline the entire loan and insurance approval and execution process. Our services will enable our customers to save time and effort in handling the complicated and cumbersome processing tasks for a variety of trade related loans and insurances, with features and functionalities including identity verification and authentication, document exchange and handling, application and approval, and contract execution and management, among other tasks.

Powerbridge BaaS Services

Overview of Powerbridge BaaS Services

We began offering our cloud-based *Powerbridge BaaS Services* (blockchain-as-a-service) with designated use case for limited government customer in June 2019 and have not generated any revenue from it yet. We continue developing our BaaS Services for market commercialization. Blockchain technology is emerging as a major disruptive force across many industries, including those involved in global trade. We believe that blockchain technology could allow our customers to conduct business in more synchronized and collaborative ways to substantially increase operational efficiency and reduce trade costs across the global trade supply chain. *Powerbridge BaaS Service* includes *Compliance Blockchain Services* and *Supply Chain Blockchain Services*.

Our blockchain technology-enabled compliance applications and services are designed to allow the customs agency to increase the effectiveness of risk assessments and interventions in monitoring and controlling the flow of goods, documents, and vendors for cross border trade events and transactions, with an enhanced level of regulatory information transparency and synchronization among customs agencies and other government authorities.

Global trade is generally characterized by its extended workflows with complicated compliance and logistics processes, voluminous documentation and time-consuming paper handling, cumbersome and costly peer-to-peer messaging and a great number of players from many different disciplines.

We estimated that a typical process for an export shipment in China may involve 1 exporter, 8 government agencies and authorities and 12 various logistics and financial service providers with more than 60 persons involved in 13 different work processes that generate more than 55 trade compliance and logistics documents and 150 information or message exchanges.

Conventional and traditional applications have enhanced the functional performance of global trade organizations, but are limited at establishing trusted relationships, allowing transparency because of inconsistent information sharing, and enabling collaboration across organizational boundaries among all players.

We believe blockchain technologies can not only address the shortfalls of conventional and traditional applications, but will disrupt the global trade industry and change how global trade is conducted with a collaborative model that can drastically enhance overall efficiency and reduce trade cost for all players in the global trade ecosystem.

Strengths of Powerbridge BaaS Services

We are designing and developing our *Powerbridge BaaS Services* to provide corporate and government organizations involved in global trade with significant improvements in workflow performance, reduction in document handling, optimization of synchronized peer-to-peer exchange of information, and enhancement of overall productivity and efficiency, with the following potential core attributes and advantages:

- *Distributed and shared ledgers* of immutable data and records for transactions are on trusted and secured global trade blockchain networks that are made accessible only to permissioned trading partners and peers.
- *Encoded smart contract* execution are validated and automated based on pre-defined business rules and contractual conditions for global trade peer-to-peer transactions or executions that are authenticated and verifiable in real time.
- *End-to-end visibility* and transparency throughout the global trade supply chain ensures real time exchange of events and documents among all trading parties and peers in the ecosystem.
- *Provenance and traceability* are enabled with time-stamped records or documents and immutable provenance records of import and export goods that ensure accuracy for audit and regulatory compliance purposes.
- *Extensible and interoperable* capabilities enable the blockchain networks to connect and integrate with multiple other blockchain networks and with applications and systems of the permissioned members.
- *Lower total cost of ownership* with services offered in the cloud with minimum investment in software and hardware for rapid deployment as well as intuitive, easy-to-use user interface on the internet and via mobile devices.

We offer our cloud-based BaaS services through commercial cloud platform services that provide infrastructure as a service for servers, storage, networking and database. We currently plan to generate our revenue on a subscription basis with single use, group and enterprise editions and from professional service fees.

We began designing and developing our *Powerbridge BaaS Services* infrastructure and services in 2017. We have our own development teams and work with third-party providers of infrastructure technologies. We recently introduced our services as pilot projects on a limited basis to selected customers.

We used a portion of the proceeds from the IPO to accelerate our R&D in order to expedite our service offerings to drive product adoption. We believe our domain knowledge, product expertise and customer relationships will enable us to capture significant market share with *Powerbridge BaaS Services*.

Our BaaS Services

Corporate and government organizations involved in global trade are facing increasing challenges with existing available technology and applications which hinder their productivity and efficiency. Conventional and traditional applications are inadequate and ineffective in addressing challenges which include:

- Conventional and traditional software systems used by each global trade participant is largely disjointed with inefficient integration and synchronization.
- Information across organizational boundaries is inconsistent and not fully transparent with many “blind spots” on the global trade supply chain.
- Peer-to-peer messaging or information exchanges among global trade players are complex, cumbersome, time-consuming and costly.
- Manual handling of paper-based global trade documents is time consuming, resource draining and error-prone.
- Compliance risk assessment and control are ineffective and costly due to lack of sufficient and credible information.

We believe our *Powerbridge BaaS Services* will address the imminent challenges faced by corporate and government organizations in global trade. Our services are being developed to offer potential benefits including:

- Trusted and secured blockchain networks where all permissioned players in the global trade ecosystem can synchronize and collaborate.
- End-to-end visibility and transparency of goods and documents throughout the global trade supply by all permissioned players.
- Synchronized cross-organizational workflows and secured exchange of transaction events and messages among global trade players.
- Digitized and automated exchange of global trade documents in real time with assurance of authenticity and immutability.
- Enhanced compliance risk assessments with increased level of information transparency and assured provenance of import and export goods and services.

Our services are provided as consortium blockchain networks designed for all players in the global trade ecosystem including import and export businesses and manufacturers, logistics service providers, financial service providers, and government agencies and authorities with the following potential benefits to each group of players:

- Businesses can benefit from full transparency of a streamlined supply chain that allows for greater predictability, earlier detection of problems, enhanced inventory management and better overall resources allocation.
- Logistics service providers can benefit from increased visibility on the supply chain, enhanced document processing and shorter processing time, improved service reliability and lower cost to trade businesses.
- Financial service providers can benefit from increased visibility into key trade events which mitigate risks and increase assurances, and automated document exchange and processing for loan, insurance and settlement services.
- Government agencies can benefit from enhanced monitoring and control on flow of goods, more effective risk assessments and interventions, increased sharing of information among agencies, and higher overall compliance efficiency.
- Government authorities for trade zones and ports can benefit from increased operational efficiency driven by increased transparency, improved document flow and faster processing time, and higher throughput for goods and cargos.

Our services are designed to be built on an open and extensible blockchain infrastructure. This will enable us to efficiently add and expand our services over time. We intend to offer our services in sequence starting with regional or functional blockchain networks with fewer players and gradually expanding to larger ones and eventually covering the entire global trade supply chain.

We believe this approach of targeting subsets of the global trade ecosystem by leveraging our deep domain knowledge and strong customer relationships will allow us to continually test and fine-tune our services and incrementally drive product and market adoption which may take considerable time and effort. We plan to initially offer the following services on a regional or functional basis:

- *Compliance Blockchain Services* are intended for government agencies including customs, inspections and quarantines, cross-border control, maritime affairs, foreign exchange, tax and duty, and trade commerce, and government authorities such as free trade and bonded trade zone authorities, port and terminal authorities and operators, and other trade regulated zone authorities. Our services will provide multiple government agencies and authorities a single view of trade events and documents on designated global trade blockchain networks, which allow them to synchronize and streamline their regulatory compliance activities with enhanced compliance effectiveness and operational efficiency.

Government agencies will be able to use our services to increase the effectiveness of risk assessments and interventions in monitoring and controlling the flow of goods and documents with increased level of transparency and assurance of provenance. Trade zone and port authorities will be able to increase their service and operations efficiency with enhanced transparency and visibility, faster processing time and higher cargo throughput. Our blockchain services will be capable of integrating with the software systems from government agencies and authorities for real time monitoring and synchronization and from global trade businesses and logistics service providers for the government agencies and authorities to better service them.

- *Logistics Blockchain Services* are being designed for businesses and manufactures involved in global trade as well as customs and freight forwarding service providers. The customs and freight forwarding processes are complicated and cumbersome with multiple parties involved and many voluminous documents to handle. Customs and freight forwarders represent the businesses to take on a number of tasks including making import and export declarations with customs and inspection agencies, arranging for cargo shipments with the shippers and carriers, and handling logistics and compliance works in the regulated trade zones. These processes generate large sets of documents and require constant communication among the involved parties.

Our services will allow all involved participants operating in the customs and freight forwarding process to better connect and synchronize on the blockchain networks. Our customers will use our services to streamline cross-organizational workflows and have real time access to monitor and manage progress throughout the process. Our blockchain networks will be capable of connecting and integrating with the software systems from permissioned trade businesses and logistics service providers, with features and functionalities including automated contract execution, expedited service remittance, streamlined document handling, and synchronized information exchange.

- *Supply Chain Blockchain Services* are being designed to provide end-to-end visibility and transparency to all stakeholders or players throughout the cross-border global trade supply chain, including import and export businesses and manufacturers, logistics service providers, transportation shippers and carriers, financial service providers, insurance companies, settlement service providers, government agencies and authorities, and all other players. Our services will enable real time sharing of trade data and events on distributed and trusted blockchain networks for broad synchronization and collaboration among all players in the global trade ecosystem in which the entire trade process is facilitated and optimized.

Our services will provide secured information and message exchanges on the blockchain networks that enable all players to have real time access to flows of documents and goods along the supply chain, allowing them to synchronize and collaborate across organizational boundaries in order to efficiently handle the complicated and cumbersome compliance and logistics processes. Our customers can use our services to track goods and documents, identity and manage milestone exceptions, trace the provenance of goods, and share information with their trade partners and customers. We intend to first offer our services in China and subsequently expand to integrate the international players on the global trade supply chain.

- *Import & Export Loan and Insurance Processing Blockchain Services* are being designed for businesses and financial service providers involved in global trade. Our blockchain services will empower businesses with easier and faster processing for loans, insurance and settlements with lower financing cost. Financial service providers can have improved visibility on key events on the blockchain-enabled trade supply chain, resulting in better and more assured loan decisions that mitigate financing risks. Insurance companies and settlement service providers will be able issue trade insurances and provide settlement services with more streamlined workflows and higher processing efficiency with our blockchain services.

Through our services, transaction events or activities among businesses on the global supply chain, such as sales and invoicing, purchasing and ordering, and shipping and receiving are programmed or encoded with pre-defined business rules and contractual conditions, allowing for validated and automated transactions to occur. These transaction events and records on the secured blockchain networks will be authenticated and time-stamped, thus bringing substantial proof and immutable evidence to the financial service providers for effective credit and risk assessment when offering their loans and other services to the businesses.

Our Technology

Our solutions and services are built from our multiple proprietary technology platforms which are developed based on industry leading open source infrastructure technologies. Our technology platforms are designed for high performance reliability, flexibility and scalability, allowing us to expand our solutions and services rapidly and efficiently to consistently address the needs of our global trade customers.

Our technology platforms include *Powerbridge System Platform* for our *Powerbridge System Solutions*, *Powerbridge SaaS Platform* for our *Powerbridge SaaS Services*, and *Powerbridge BaaS Platform* for our *Powerbridge BaaS Services*.

We are developing our own technologies as well as working with other third-party technology infrastructure partners to expand the scope of our solutions and services with the best use of big data, artificial intelligence and Internet of Things.

Powerbridge System Platform

Powerbridge System Platform is our proprietary technology platform from which we develop our *Powerbridge System Solutions*. Our platform is built on Java Spring and Microsoft .Net frameworks as well as other open source technologies.

Powerbridge System Platform consists of modular technology and business components that enable us to provide mission critical applications and solutions in trade operations, trade logistics and regulatory compliance to our corporate and government customers. Our platform's core capabilities include:

- *Scalable Modular Architecture.* Our scalable architecture consists of a robust set of modular technology and business components that allows for rapid and efficient development and deployment to support complex mission-critical business processes and transactions in global trade.
- *Flexible Configuration Modeling.* Leveraging our deep domain knowledge, product expertise and customer experience in global trade applications, we have developed a flexible system configuration modeling that minimize development resources and time without repetitive coding for common or special business and operations use cases.
- *Reliable Enterprise Grade Performance.* Our platform provides the infrastructure for reliable and high performance that can be built with multiple programming languages, support all commonly used databases, operate with web browser/server or client/server models, and generate dynamic interactive user interfaces.
- *Diverse Industry Applications Supported.* Our platform supports product applications and system solutions that are used by global trade businesses in a wide variety of industries such as automotive, pharmaceutical and consumer goods and involving different government agencies and authorities.

Powerbridge SaaS Platform

Powerbridge SaaS Platform is built based on the open source Spring Cloud and other industry leading technologies for developing, deploying and operating our software-as-a-service. It is capable of running in multiple designated data centers and cloud environments on commercially available infrastructure as a service platforms.

Powerbridge SaaS Platform is the technology infrastructure upon which we are developing our *Powerbridge SaaS Services* designed to provide on-demand services in trade operations, trade logistics and regulatory compliance with a multi-tenant and microservice architecture. Our core technology capabilities include:

- *Secured Multi-Tenant Architecture.* Our multi-tenant architecture is designed to operate a single instance of a software application simultaneously for multiple organizations or tenants. Each tenant is operating in virtual isolation from each other. Our multi-tenancy architecture ensures and maintains data security and integrity for our customers.
- *Scalable Microservice Architecture.* Our microservice architectural approach allows us to provide scalable and reliable application services as a suite of independently deployable, modular services in which each service can run a unique business or transaction process based on a lightweight mechanism with well-defined business rules and logic.
- *Ease of Integration and Configuration.* We provide a set of application programming interfaces that is designed to enable our customers to integrate and configure our services quickly and seamlessly with their systems and applications, as well as with third-party's systems.
- *Extensible Technology Platform.* Our application services are built on a single platform that leverages the shared business and technology components, enabling us to rapidly expand our product features and functionalities without disruption and seamlessly integrate our services with one another.

Powerbridge BaaS Platform

We are designing and developing our proprietary *Powerbridge BaaS Platform* based on the open source Hyperledger Fabric framework and other third-party frameworks that provide the blockchain infrastructure for shared ledger, smart contract, consensus algorithm, distributed storage, encryption and security, and network operations.

Powerbridge BaaS Services are built on top of our blockchain platform that is designed to provide high scalability and performance characteristics, consisting of multiple technology engines that support the various business component models specific for trade transaction, trade logistics and regulatory compliance in global trade:

- *Smart Contract Engine* is designed to provide a complete and automated blockchain service for the coding, registering, authorizing, releasing, triggering, executing, updating and cancelling of the business contracts or transactions based on pre-defined contractual conditions or pre-defined business rules that are encoded into the smart contracts between trading or transactional parties.
- *Member Service Engine* is intended for authenticating and managing the identity of the blockchain network members or participants with encrypted public or private key generation and maintenance as well as managing member accounts, maintaining multi-level permission access control and conducting risk monitoring and compliance auditing on selective member transactions.
- *Network Service Engine* is designed for managing network connectivity with applications, programming interfaces and structured query languages, member consensus via consensus algorithms and permission mechanisms, secured and authenticated peer-to-peer data transmissions and exchanges, and transaction record storage with key value and Merkle hash value on distributed shared ledgers and/or in cloud-based database environments.
- *Network Operations Engine* is intended to monitor, manage and maintain the blockchain network operations, including network configuration, throughput and time consumption, hardware resource and allocation, fraud and emergency situation detection, network system update and announcement, and other network functions and operations as well as network performance and trend analysis and reporting.

We are continuing to enhance the technology capabilities of *Powerbridge BaaS Platform* while it is under development. We believe our platform offers all of the governance and operations benefits derived from blockchain technology with the following differentiated and distinctive advantages:

- *Global Trade Centric Business Components.* We believe our domain knowledge, product expertise and customer experience will allow us to develop a platform that forms a strong and powerful foundation for continually offering and expanding our services to drive product adoption with this new and exciting technology.

Our BaaS services will be supported by our business components which are stacked on top of and driven by our technology engines. Our business components will include trade transaction, trade operations, trade logistics and regulatory compliance, which are designed to address the mission critical needs of global trade businesses, government agencies and authorities, and logistics and other service providers with comprehensive services from document handling to customs processing to transaction processing.

- *Data Separation Modeling.* Global trade transaction processes typically generate voluminous data to which organizations have different needs and ways to handle them. Some organizations may choose not to have their sensitive data stored on the blockchain networks. We are developing a data separation model that can allow data to be recorded and stored on the shared ledgers, but also have more sensitive data securely stored off the blockchains, which has the added benefit of minimizing data storage space.

We intend to further separate the smart contract blockchains and workflow blockchains. Smart contract blockchains and the corresponding contract codes and hash values are recorded and stored on the shared ledgers as the contract codes can be called and used numerous times. Data generated from the workflow blockchains and the smart contract blockchains can be designated as on or off the shared ledgers. This further ensures data security and reduce data storage on the blockchains.

Other Technologies and Applications

We intend to continue leveraging our industry expertise and product knowledge with the use of disruptive technologies such as big data, artificial intelligence and Internet of Things to enhance our core technology capabilities and continually increase the scope of our solutions and services to our customers.

- *Big Data.* We are developing our big data technology and applications designed to acquire, store, process, analyze and visualize large scaled structured and unstructured global trade transaction and compliance data. Our technology is intended to augment our solutions and services in trade operations, trade logistics and regulatory compliance in global trade, including regulatory risk control, compliance command operations, cross-border trades and processing, logistics matching services, among others.

We intend to use ETL (extract, transform and load) technologies for acquiring and processing massive volumes of data such as customs declarations and shipping manifests from various government and commercial sources. We intend to build our big data platform based on a distributed data warehouse architecture using the open source Hadoop and Spark frameworks, allowing for high performance in multi-dimensional correlation analytics, real-time complex event processing, and distributed data query and retrieval.

Our correlation analytics are being designed for multi-dimensional and real-time correlation of large quantities of structured, semi-structured and unstructured data from different data sources. Our complex event processing technology is designed to monitor and track data relating to events as they occur in real time and provide data insights based on pre-defined business rules. Our data query and retrieval is intended to support query and retrieval from multiple data sets and provide multi-dimensional data displays.

Our data visualization and interactive data mining technologies is designed to provide intuitive and interactive visualization tools and dashboards that are easy to use and can be customized for displaying critical business performance data or metrics. Our visualization tools and dashboards are designed to support interactive data mining and a variety of display formats including charts, graphs and tables as well as three-dimensional displays and geographic information system mappings.

- *Artificial Intelligence.* We work with third party artificial intelligence technology providers to enhance our solutions and services in global trade. Our artificial intelligence applications facilitate and support biometric facial and fingerprint recognitions as well as object recognition for transportation vehicles and shipping containers. We plan to develop our machine learning capabilities to provide optimized matching and recommendation services for global trade logistics and processing.

Our biometric face recognition application is used for security and enforcement measures typically at checkpoints of cross-border trade operations and regulated trade zone facilities for identifying and verifying a person from a digital image or a video frame by comparing distinct facial features with given facial images extracted from our database. Our applications are designed to support concurrent processing of multiple persons. Our fingerprint recognition application is also applied for security measures in some cross-border trade settings.

Our object recognition application is designed to identify and verify transportation vehicles at ports and terminals, regulated trade zones and cross-border checkpoints by capturing, processing, and identifying still images and video images. Further, through machine learning computation, transportation vehicles in these facilities can be automatically directed with optimized routes to their designated destinations such as a warehouse or a container depot.

We plan to enhance our technology capabilities in machine learning algorithms that learn from experience, identify patterns and make predictions driven by a large set of global trade data. We intend to leverage our domain knowledge and industry experience to design and develop machine learning algorithms and distributed computing that can optimize the efficiency in the matching of trade logistics services among trade businesses and service providers.

- *Internet of Things*. Internet of Things or IoT refers to the network of physical objects embedded with sensors, electronics, and network connectivity that allow these objects to collect and exchange data. We work with third-party technology companies to provide IoT applications to process, store, and analyze IoT data from trade related trucking vehicles, weighting stations, and shipping containers. Our applications are integrated with the target object's IoT systems and software systems of government authorities.

Trucking vehicles, weighting stations and shipping containers are tightly regulated at ports and terminals, regulated trade facilities and cross-border facilities. Our IoT applications are used by government authorities to monitor and control these objects. Our applications are able to authenticate objects, facilitate data exchanges, connect through gateways and application programming interfaces, and provide event-based IoT data processing, analysis and visualization.

Our IoT applications allows fast and accurate identification of trucking vehicles as they pass through the checkpoints at regulated areas with a high throughput capacity and rapid data transmission, which facilitates efficient control and fast checkpoint release. Our IoT applications can combine with the use of global positioning systems, global system for mobile communication and global information system to enable government authorities complete monitoring and control of the trucking vehicles.

Our IoT applications are capable of acquiring and processing a high volume of IoT enabled data from radio frequency identification and other types of sensor devices installed on intermodal shipping containers operating in many different trade facilities or settings such as container yards, shipping ports, bonded warehouses and air terminals. Our IoT applications can also process IoT data from electronic locks on the containers for automated container lock handling.

Our Customers

Our customers are international trade businesses and manufacturers, government agencies and authorities, logistics service and other providers, primarily located in China.

Our international trade business and manufacturer customers are import and export companies, manufacturers engaged in import and export, inward processed manufacturers who use imported raw materials, components and parts, packing and other materials to produce finished products for exporting, and cross-border eCommerce operators who conduct cross-border business for air packaged consumer products.

Our government customers are provincial and regional government agencies, government authorities and government-owned organizations. Government agencies include customs, inspection and quarantine, border enforcement, maritime affair, transportation and commerce. Government authorities include authorities for ports, bonded and free trade zones and government-owned organizations include Chinaport and other international trade related organizations.

Our logistics service and other provider customers include freight forwarding and shipping agent firms, customs and inspection brokers, warehouse operators, transportation companies and other international trade related service organizations as well as financial and insurance service providers engaged in global trade services.

Our customers include (i) international trade businesses and manufacturers, (ii) government agencies and authorities, and (iii) logistics and other various service providers. During the fiscal year ended December 31, 2020, we generated revenue from a total of 602 customers, of which 373 are international trade businesses and manufacturers, 33 are government agencies and authorities, and 196 are logistics and other service providers. During the fiscal year ended December 31, 2019, we generated revenue from a total of 488 customers, of which 312 are international trade businesses and manufacturers, 29 are government agencies and authorities, and 147 are logistics and other service providers. During the fiscal year ended December 31, 2018, we generated revenue from a total of 589 customers, of which 104 are international trade businesses and manufacturers, 30 are government agencies and authorities, and 455 are logistics and other service providers.

We plan to expand our market coverage to international markets to service customers in different B&R countries. We also intend to provide our solutions and services to corporate and government customers in the countries or markets we intend to target.

Sales and Marketing

Our sales and marketing teams work closely together to drive market awareness, develop and manage leads, and develop and build customer relationships to increase revenue growth. We sell our solutions and services to corporate and government customers through our direct sales organization, indirect channel partners and strategic government partners.

Our sales team is organized by customer type and geography. Our direct sales force is supported by sales engineers and service consultants. Our indirect channel partners include value added resellers, system integrators, software and application providers, system hardware providers and other referral partners. As of the date of this Annual Report, our sales teams consisted of 39 full-time sales and marketing personnel respectively. During fiscal years 2020, 2019 and 2018, our sales and marketing expense were approximately \$2.7 million, \$3.6 million and \$2.1 million, respectively, representing 10.0%, 17.7% and 9.3% of our total revenues for fiscal years 2020, 2019 and 2018, respectively.

We generate customer leads, accelerate sales opportunities and build brand awareness through our marketing programs. Our marketing programs target management and technology executives of global trade businesses, government agencies and authorities, and various service providers, including user conferences, sponsored events and product promotions.

We continue to develop strategic partnerships with provincial and local government agencies, technology organizations, trade zone authorities and other government organizations, i.e., regional customs and commerce agencies, bonded and other trade facilities, and Chinaport and other state-owned entities, to drive sales by leveraging their strengths and resources in targeted customer base, strong regional market influence and extensive government and industry resources.

As part of our overall strategy, we plan to expand into international markets to provide global trade software solutions and services by “piggybacking” with the infrastructure builders and other Chinese organizations who participate in the B&R’s development of global trade infrastructures in the B&R partnering countries.

Research and Development (“R&D”)

Our R&D organizations consist of dedicated engineering and technology employees, who are responsible for the design, development, testing and delivery of all aspects of our technologies, solutions and services. As of the date of this Annual Report, our team consists of 106 full-time R&D personnel. We incurred expenses of \$2,780,944 and \$2,163,658 in R&D in fiscal year 2020 and 2019, respectively.

The majority of our R&D team is based in our Zhuhai office and to a lesser degree in our branch offices. Our team is further apportioned into smaller agile development groups to foster continuous innovation and rapid delivery.

We believe we have a strong R&D culture that rapidly and consistently delivers high quality products. We plan to continue to invest substantial resources in R&D to drive core technology innovation and bring new solutions and services to market.

Competition

The market for global trade software application and system integration services is highly competitive and fragmented. We face intensive competition. Our main sources of current and potential competition fall into the following categories:

- Regional global trade application providers offering regulatory compliance, trade logistics and trade processing software and systems.
- Software vendors providing online or cloud-based single point or single feature functional global trade application products and services.
- Online global trade hubs or portals offering specific global trade transactional and processing application products and services.
- Enterprise resource planning, supply chain and logistics software application companies offering global trade software, systems and services.
- Government organizations providing global trade related regulatory compliance and trade logistics applications and systems.
- Emerging blockchain, artificial intelligence and IoT technology providers offering technologies and software for global trade applications.

We believe the following competitive attributes are necessary for us to compete successfully in our industry:

- Deep domain knowledge, industry experience and product expertise in global trade software applications and system integration to address customer needs.
- Enablement of emerging and disruptive technologies to develop and provide global trade software applications and services
- Enterprise grade performance level in scalability, reliability and security as well as cost of ownership and ease of deployment.
- Breadth, depth and quality of application features and functionalities that are able to operate in multiple infrastructures such as in cloud, on premises or both.
- Capability of technology platforms in integrating and interoperating with legacy and other enterprise infrastructures and third party applications.
- Strength of sales and marketing as well as customer support in service responsiveness and level of customer satisfaction.
- Brand awareness and reputation, size of customer base and level of user adoption to new and disruptive technologies and applications.
- Ability to capture market share in China and expand into international markets to operate as a global player in servicing multiple markets and countries.

We believe we compete favorably on the basis of the competitive factors listed above. Some of our competitors have substantially greater financial, technical and other resources, greater name recognition, larger sales and marketing budgets, broader distribution channels and larger or more intellectual property portfolios.

Intellectual Property

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

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

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

We rely on a combination of trademark, fair trade practice, copyright and trade secret protection laws and patent protection in China and other patent jurisdictions, as well as contractual restrictions, to protect our intellectual property. We entered into comprehensive confidentiality agreements with our management and consultants. We have standard confidentiality terms with all other employees. We also control access to and distribution of our documentation and other licensed information.

Despite our efforts to protect our proprietary technology and our intellectual property rights, unauthorized parties may attempt to copy or obtain and use our technology to develop applications with the same functionality as our products. Policing unauthorized use of our technology and intellectual property rights is difficult. Our patent applications may not issue as patents, and if they do issue as patents, they may not provide meaningful protection against competitors. We expect that software in our industry may be subject to third-party infringement claims as the number of competitors grows and the functionality of applications in different industry segments overlaps. Any of these third parties might make a claim of infringement against us at any time. 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.

As of the date of this Annual Report, we have 2 registered patent, 103 registered software copyrights, and 12 registered trademarks in the PRC. In addition, we own five URL designations and domain names, including powerbridge.com, erp-china.com, pbtcloud.com, pbtyun.com, and pbtco.cn.

We do not have applications pending in any jurisdiction other than China. We do not know if these applications will be granted as patents, and if they are granted as patents whether they will provide meaningful protection against their party competitors.

Facilities

Our headquarters and executive offices are located in Zhuhai, China and consist of approximately 1,200 square meter of office space under one lease which will expire in December of 2021. In addition to our headquarters, we lease space in Zhuhai, Wuhan, Changsha, Nanning, and Hangzhou. Rent expenses amounted to \$305,832 and \$492,530 and \$386,076 for the years ended December 31, 2020, 2019 and 2018, respectively.

We lease all of our facilities and do not own any real property. We intend to procure additional space as we add employees and expand geographically. We believe our facilities are adequate and suitable for our current needs and that, should it be needed, suitable additional or alternative space will be available to accommodate any such expansion of our operations. As of May 10, 2021, we maintain following facilities in China.

Facility	Address	Space (m ²)
Zhuhai Office	1st Floor, Building D2, Southern Software Park, Tangjia Bay	1190
Wuhan Office	Suite 805, Block 5, Fanghai Central Business District, Soho City Jiangnan, Wuhan, Hubei 430014, China	388
Changsha Office	Suite 458, 12th Fl, Lanwan International, Shuyan & Nanhu Road Tianxin, Changsha, Hunan 410015, China	305
Nanning Office	Suite 2206-2209, 22 nd Fl, Block 2, 118 Dongge Road Qingxiu, Nanning, Guangxi 530012, China	389
Hangzhou Office	Suite 1301, Building 1, Jiliang Tower, 252 Wantang Road Xihu, Hangzhou, Zhejiang 310012, China	86
Jiujiang Office	Gangcheng Ave.#200, Jiujiang Economic Technology Development Zone, Jiujiang, China	50

Employees

As of the date of this Annual Report, we had a total of 236 full-time employees, of which 106 are in research and development, 39 are in sales and marketing, 52 are in technical and customer services, and 39 are in general administration.

We have standard employment, comprehensive confidentiality and non-compete agreements with our management and standard confidentiality and non-compete terms with all other employees. As required by laws and regulations in China, we participate in various social security plans that are organized by municipal and provincial governments, including pension insurance, medical insurance, unemployment insurance, maternity insurance, job-related injury insurance and housing fund. We are required by PRC laws to make contributions to employee social security plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

We believe that we maintain a good working relationship with our employees, and we have not experienced any labor disputes. None of our employee is represented by a labor union or covered by collective bargaining agreements. We have not experienced any work stoppages.

Legal Proceedings

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not currently a party to any legal proceedings that in the opinion of the management, if determined adversely to us, would have a material adverse effect on our business, financial condition, operating results or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Government Regulation Relating to Our Business

Regulations Related to Foreign Investment

Investment activities in China by foreign investors are principally governed by the Catalogue for the Guidance of Foreign Investment Industries, which was promulgated by MOFCOM and the National Development and Reform Commission, as amended from time to time. Industries listed in the catalogue are divided into three categories: encouraged, restricted and prohibited. Industries not listed in the catalogue are generally open to foreign investment unless specifically restricted by other PRC regulations. Establishment of wholly foreign-owned enterprises is generally allowed in encouraged industries. For some restricted industries, foreign investors can only conduct investment activities through equity or contractual joint ventures, while in some cases PRC partners are required to hold the majority interests in such joint ventures. In addition, projects in the restricted category are subject to higher-level governmental approvals. Foreign investors are not allowed to invest in industries in the prohibited category.

Regulations Relating to PRC Information Technology Service Industry

According to the Catalog on Foreign Invested Industries (2017 Revision) issued by the National Development and Reform Commission and the Ministry of Commerce, IT services fall into the category of industries in which foreign investment is encouraged. In 2018, The National Development and Reform Commission and the Ministry of Commerce launched Special Administrative Measures for Access of Foreign Investment (Negative List) (Version 2018) (“the 2018 Negative List”) to replace part of the Catalog on Foreign Invested Industries (2017 Revision) in respect of the category of industries in which foreign investment is restricted or prohibited, and foreign investment in IT services is neither restricted nor prohibited according to the 2018 Negative List. The State Council has promulgated several notices since 2000 to launch favorable policies for IT services, such as preferential tax treatments and credit support.

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

Companies in China engaging in information systems integration were used to be required to obtain qualification certificates from the Ministry of Industry and Information Technology. “Information systems integration” means plan, design, development, implementation, service and safeguard of computer system and network system. Currently the Company does not engage in information system integration business, therefore the Company is not required to have such qualification certificates. Companies planning to set up computer information systems may only retain systems integration companies with appropriate qualification certificates. The qualification certificate is subject to review every two years and is renewable every four years. In June 2015, the China Information Technology Industry Federation (CITIF) promulgated the Appraisal Condition for Qualification Grade of Information Systems Integration (Provisional) to elaborate the conditions for appraising each of the four qualification grades of systems integration companies. Companies applying for qualification are graded depending on the scale of the work they undertake. The grades range from Grade 1 (highest) to Grade 4 (lowest) in the scale of the work the respective companies can undertake.

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 customer. Such enterprises are also required to establish an information protection system and take various measures to protect customers’ confidential information, including causing their employees and third parties who have access to customers’ confidential information to sign confidentiality agreements and or non-competition agreements.

Regulations Related to Labor and Social Security

Pursuant to the Labor Law, promulgated by National People's Congress in January 1995, and the Labor Contract Law, promulgated by Standing Committee of the National People's Congress in June 2007 and amended in December 2012, employers must execute written labor contracts with full-time employees. If an employer fails to enter into a written employment contract with an employee within one year from the date on which the employment relationship is established, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee's salary for the period from the day following the lapse of one month from the date of establishment of the employment relationship to the day prior to the execution of the written employment contract. All employers must comply with local minimum wage standards. Violation of the Labor Law and the Labor Contract Law may result in the imposition of fines and other administrative and criminal liability in the case of serious violation.

On December 28, 2012, the PRC Labor Contract Law was amended with effect on July 1, 2013 to impose more stringent requirements on labor dispatch. Under such law, dispatched workers are entitled to pay equal to that of full-time employees for equal work, but the number of dispatched workers that an employer hires may not exceed a certain percentage of its total number of employees as determined by the labor administrative department of the State Council. Additionally, dispatched workers are only permitted to engage in temporary, auxiliary or substitute work. According to the Interim Provisions on Labor Dispatching promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, the number of dispatched workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and dispatched workers). The Interim Provisions on Labor Dispatching require employers which are not in compliance with the PRC Labor Contract Law in this regard to reduce the number of its dispatched workers to below 10% of the total number of its employees prior to March 1, 2016. In addition, an employer is not permitted to hire any new dispatched worker until the number of its dispatched workers has been reduced to below 10% of the total number of its employees.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to the Social Insurance Law, an employer that fails to make social insurance contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated deadline and be subject to a late fee of up to 0.05% or 0.2% per day, as the case may be. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue. According to the Regulations on Management of Housing Fund, an enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated deadline; otherwise, an application may be made to a local court for compulsory enforcement. Our PRC operating entities have not made adequate employee benefit payments and we may be required to make up the contributions for these plans as well as to pay late fees and fines. See "Risks Related to Doing Business in China--Failure to make adequate contributions to various mandatory social security plans as required by PRC regulations may subject us to penalties".

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, most recently amended in August 2008. Payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can usually be made in foreign currencies without prior approval from the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. By contrast, approval from or registration with appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of foreign currency-denominated loans.

On March 30, 2015, SAFE issued the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, or SAFE Circular 19. Pursuant to SAFE Circular 19, the foreign exchange capital of foreign-invested enterprises is subject to the discretionary foreign exchange settlement, which means the foreign exchange capital in the capital account of foreign-invested enterprises upon the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) may be settled at the banks based on the actual operation needs of the enterprises. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is currently 100%. SAFE can adjust such proportion in due time based on the circumstances of international balance of payments.

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

Dividend Distribution. The principal regulations governing the distribution of dividends by foreign holding companies include the Company Law of the PRC (1993), as amended in 2013, the Foreign Investment assets or interests to a SPV, but failed to complete foreign exchange registration of overseas investments as required prior Enterprise Law (1986), as amended in 2016, and the Administrative Rules under the Foreign Investment Enterprise Law (1990), as amended in 2001 and 2014 respectively.

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 to implementation of Circular 37, are required to send a letter to SAFE and its branches for explanation. Under the relevant rules, failure to comply with the registration procedures set forth in Circular 37 may result in receiving a warning from SAFE and its branches, and may result in a fine of up to RMB 300,000 for an organization or up to RMB 50,000 for an individual. In the event of failing to register, if capital outflow occurred, a fine up to 30% of the illegal amount may be assessed. PRC residents who control our company are required to register with SAFE in connection with their investments in us. If we use our equity interest to purchase the assets or equity interest of a PRC company owned by PRC residents in the future, such PRC residents will be subject to the registration procedures described in Circular 37.

New M&A Regulations and Overseas Listings

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

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

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

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

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

C. Our Structure

See "Item 4. Information on the Company – A. History and Development of the Company."

D. Property, Plants and Equipment

Information regarding our property, plants and equipment is described "Item 4. B. Business Overview."

Item 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our 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

Powerbridge Technologies Co., Ltd. is a company that was established under the laws of the Cayman Islands on July 27, 2018 as a holding company.

We are a provider of software application and technology solutions and services to corporate and government customers engaged in global trade. All of our customers are located in China. We currently generate most of our revenues from application development services, which represent 82.5%, 78.2% and 86.5% of total revenue in fiscal 2020, 2019 and 2018, respectively. We also generate revenue from consulting and technical support services, which represent 14.2%, 16.5% and 10.3% of our revenue in fiscal 2020, 2019 and 2018, respectively. Further, we also earn subscription service revenue from customers accessing our SaaS. For the years ended December 31, 2020, 2019 and 2018, our revenues were approximately \$26.7 million, \$20.1 million and \$23.2 million, respectively.

Coronavirus (“COVID-19”) updates

The COVID-19 pandemic has caused disruptions to our operations starting in December 2019. During the first quarter of 2020, our operations were closed in February due to China government mandates and we moved quickly to transition our colleague base to a fully remote working environment in all our locations. At the beginning of March 2020, substantially all of our employee were back to work in our offices. The ongoing COVID-19 pandemic not only adversely impacted our operations but business of our customers. We experienced delayed customer payments and rescheduled customer orders, which adversely impacts the Company’s results of operations, cash flows and financial position. Since the COVID-19 pandemic has been gradually contained in China, our revenue and gross margin for the year ended December 31, 2020 has not been adversely affected.

The extent of the impact on our 2021 fiscal year results will be dependent on future developments such as the length and severity of the crisis, the potential resurgence of the crisis, future government actions in response to the crisis and the overall impact of the COVID-19 pandemic on the global economy and capital markets, among many other factors, all of which remain highly uncertain and unpredictable. The Company continues taking actions to help mitigate, as best we can, the impact of the COVID-19 pandemic on the health and well-being of our employees, the communities in which we operate and our partners, as well as the impact on our operations and business as a whole.

Recent Developments

Since October 2020, we started to implement our plan to build a network of digital display such as LCD screens and operate an advertisement platform in Shenzhen, China initially, and then expand to the Greater Bay Area of China. Since February 2021, we found delivery of the outdoor advertising space could not be made as scheduled pursuant to the First Supplemental Agreement. Therefore, management does not expect our proposed outdoor advertisement business will be launched as previously planned. Upon intensive negotiation with Kezhi, we entered into a second supplemental agreement to the Original Leasing Agreement and Supplemental Agreement (the “March Supplemental Agreement”). Pursuant to the March Supplemental Agreement, we converted the paid leasing fees and contract bonds as a working capital support loan to Kezhi, with 5% annual interest rate, and the Company would not acquire the management rights and advertising publishing rights under the First Supplemental Agreement and the Original Agreement. The term of the working capital support loan was six years. On May 12, 2021, we entered into a void confirmation agreement with Kezhi, pursuant to which both parties agreed to void the March Supplemental Agreement. On May 17, 2021, Guangdong Huafa Law Firm (the “PRC Legal Counsel”) issued a legal opinion regarding the legal effect of the March Supplement Agreement and the void confirmation agreement. The PRC Legal Counsel confirmed that the parties’ rights and obligations under the March Agreement have been terminated upon the effectiveness of the void confirmation agreement.

On May 12, 2021, we entered into a second supplemental agreement to the Original Leasing Agreement (the “Second Supplemental Agreement”) with Kezhi. Pursuant to the Second Supplemental Agreement, we would not acquire the management rights and advertising publishing rights over the outdoor advertisement space and extended the paid leasing fees and contract bonds in aggregated of \$68,095,019 as a secured working capital support to Kezhi with expected annual returns over six years and coupon interest rate of 5% (the “Secured Working Capital”). Additionally, Kezhi agreed to use the Secured Working Capital in its outdoor advertisement business and other investment activities approved by us. Under the Second Supplemental Agreement, Kezhi guaranteed that it would fulfill its obligation of return of the Secured Working Capital, including the coupon interest payment, through cash generated from its business with Nanjing Jinjiahu Culture Media Co., Ltd (“Nanjing Jinjiahu”) and Guangzhou Hongtan Commercial Real Estate Investment Partnership (limited partnership) (“Guangzhou Hongtan”) in the next six years. Furthermore, if Kezhi, Nanjing Jinjiahu, and Guangzhou Hongtan can meet the milestones for asset value increase, we shall have the right of first refusal to acquire the three companies at a purchase price based on an independent valuation report.

On May 16, 2021, we entered into a third supplemental agreement to the Original Leasing Agreement with Kezhi (the “Third Supplemental Agreement”), pursuant to which the Secured Working Capital will not be used in Kezhi’s business nor its business with Nanjing Jinjiahu and Guangzhou Hongtan. The Secured Working Capital shall be returned in two years. Under the Third Supplemental Agreement, in the event that Kezhi fails to return the Secured Working Capital as scheduled, Shenzhen Qinghaihui Construction Material Co., Ltd. will provide guarantee over the return of the working capital for Kezhi. We also released the mortgage of certain chattel provided by Kezhi under the Third Supplemental Agreement.

Key Factors that Affect Operating Results

We currently derive a majority of revenues from our application development services, consulting and technical support services, and subscription services. We intend to continually enhance our services and cross-sell new services to our existing customers and acquire new customers by increasing our market penetration with a deeper market coverage and a broader geographical reach. Our ability to maintain and expand our customer base with our application development services significantly affects our operating results.

We intend to expand the scope of our offerings to service existing customers and acquire new customers by continually making significant investments in R&D as well as sales marketing activities to increase our subscription revenue and profit. Our ability to drive increased customer adoption and usage of our SaaS services affects our operating results.

Our business of providing global trade software application and technology services requires highly skilled professionals with specialized domain knowledge and technology expertise in order to develop and perform the services offered to our customers. Our ability to recruit, train, develop and retain our professionals with the skills and qualifications necessary to fulfill the needs of our existing and new customers has a significant effect on our operating results.

We intend to pursue strategic acquisitions and investments in selective technologies and businesses that will enhance our technology capabilities, expand our offerings and increase our market penetration. We believe our strategic acquisition and investment strategy is critical for us to accelerate our growth and strengthen our competitive position. Our ability to identify and execute strategic acquisitions and investments will have an effect on our operating results.

Results of Operations

For the years ended December 31, 2020 and 2019

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

	For the Years Ended		Change	% Change
	December 31,			
	2020	2019		
REVENUES:				
Application development services	\$ 21,985,214	\$ 15,720,676	\$ 6,264,538	39.8%
Consulting and technical support services	3,797,354	3,307,662	489,692	14.8%
Subscription services	881,443	1,066,720	(185,277)	(17.4)%
Total revenues	<u>26,664,011</u>	<u>20,095,058</u>	<u>6,568,953</u>	<u>32.7%</u>
COST OF REVENUES:				
Application development services	15,320,446	12,553,556	2,766,890	22.0%
Consulting and technical support services	1,803,239	1,339,133	464,106	34.7%
Subscription services	147,631	137,658	9,973	7.2%
Total cost of revenues	<u>17,271,316</u>	<u>14,030,347</u>	<u>3,240,969</u>	<u>23.1%</u>
GROSS PROFIT	<u>9,392,695</u>	<u>6,064,711</u>	<u>3,327,984</u>	<u>54.9%</u>
OPERATING EXPENSES:				
Selling and marketing	2,675,028	3,562,425	(887,397)	(24.9)%
General and administrative	5,559,426	5,945,576	(386,150)	(6.5)%
Provision for doubtful accounts	191,148	3,293,600	(3,102,452)	(94.2)%
Research and development	2,780,944	2,163,658	617,286	28.5%
Share based compensation	1,473,976	2,351,890	(877,914)	(37.3)%
Total operating expenses	<u>12,680,522</u>	<u>17,317,149</u>	<u>(4,636,627)</u>	<u>(26.8)%</u>
OPERATING LOSS FROM OPERATIONS	<u>(3,287,827)</u>	<u>(11,252,438)</u>	<u>7,964,611</u>	<u>(70.8)%</u>
OTHER INCOME (EXPENSES)				
Other income	106,026	252,109	(146,083)	(57.9)%
Change in fair value of convertible debt	(15,258,333)	-	(15,258,333)	-%
Total other expense	<u>(15,152,307)</u>	<u>252,109</u>	<u>(15,404,416)</u>	<u>(6110.2)%</u>
LOSS BEFORE INCOME TAXES	<u>(18,440,134)</u>	<u>(11,000,329)</u>	<u>(7,439,805)</u>	<u>67.6%</u>
INCOME TAX BENEFITS	<u>(80,532)</u>	<u>(213,347)</u>	<u>132,815</u>	<u>(62.3)%</u>
NET LOSS	<u>\$ (18,359,602)</u>	<u>\$ (10,786,982)</u>	<u>\$ (7,572,620)</u>	<u>70.2%</u>

Revenues

We derive revenues from three sources: (1) revenue from application development services, (2) revenue from consulting and technical support services, and (3) revenue from subscription services.

The Company is focusing on developing global trade applications and solutions equipped with the Company's new technology in SaaS platform, Big Data, AI and IoT applications and BaaS platform. The Company believes new technology development is the key driver for the Company's future growth. In fiscal 2020, our revenue related to deploying our new technology including SaaS and big data analysis services accounted for 5.8% of our total revenue (or approximately \$1.5 million) compared to 14.8% of our total revenue (or approximately \$3.0 million) in fiscal 2019.

For the year ended December 31, 2020, our total revenue was approximately \$26.7 million as compared to \$20.1 million for the year ended December 31, 2019. The Company's total revenue increased by approximately \$6.6 million, or 32.7%. The overall increase in total revenue was primarily attributable to \$6.3 million increase in revenue from application development services.

Revenue from application development services

The Company's application development service contracts are primarily on a fixed-price basis, which require the Company to perform services including project planning, project design, application development and system integration based on customers' specific needs. These services also require significant production and customization. Revenue from application development service is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations.

For the year ended December 31, 2020, our application development service revenue was approximately \$22.0 million as compared to \$15.7 million for the year ended December 31, 2019. The increase in application development service revenue was approximately \$6.3 million or 39.8% due to the fact that certain multiple large size project agreements secured between fiscal 2019 and 2020 was rescheduled and executed in fiscal 2020. In certain application development service arrangements, the contacts included sales of IT equipment. Such revenue was \$6,299,982 in fiscal 2020, significantly increased from \$1,554,428 of the related revenue in fiscal 2019. On the other side, 1.2% (or approximately \$0.3 million) of revenue from application development service were related to SaaS platform development and big data analysis applications in fiscal 2020, comparing to 6.8% (or approximately \$1.1 million) of the related revenue in fiscal 2019. Despite to the temporary slowdown in SaaS platform and big data analysis related application development service revenue in fiscal 2020, we intend to continue investing for long-term growth in the SaaS development and big data analysis market and we plan to continue to expand our ability to sell our applications by investing in product development and customer support to address the business needs of local markets and continuous growth for these services.

Revenue from consulting and Technical Support Services

Revenue from consulting and technical support services is primarily comprised of fixed-fee contracts, which require the Company to provide professional consulting and technical support services over contract terms beginning on the commencement date of each contract, which is the date its service is made available to customers. Billings to the customers are generally on a monthly or quarterly basis over the contract term, which is typically 12 to 24 months. The consulting and technical support services contracts typically include a single performance obligation. The revenue from consulting and technical support services is recognized over the contract term on a straight-line basis as customers receive and consume benefits of such services.

For the year ended December 31, 2020, our consulting and technical support service revenue was approximately \$3.8 million as compared to \$3.3 million for the year ended December 31, 2019, representing an increase of \$0.5 million or 14.8%, which was due to more technical consulting services requests from our existing clients. In addition, by providing application development services, we gain extensive understanding and knowledge of each customer's unique business needs, often resulting in opportunities for us to cross-sell our consulting and technical support services.

Revenue from subscription services

Revenue from subscription services is comprised of subscription fees from customers accessing the Company's software-as-a-service applications. The Company's monthly or quarterly billing to customer is on the basis of number of uses or the actual usage by the customers. The subscription services contracts typically include a single performance obligation. The revenue from subscription services is recognized over the contract term on a straight-line basis or based on the actual usage as customers receive and consume benefits of such services.

For the year ended December 31, 2020, our subscription service revenue was approximately \$0.9 million as compared to \$1.1 million for the year ended December 31, 2019, representing a decrease of \$0.2 million or 17.4%. The slightly decrease in subscription service revenue was mainly due to delayed reopening schedule of company's customers under the impact of COVID-19. We introduced our SaaS subscription services in fiscal 2016 and continue to expand the scope of our services and enhance the features and functionalities of our applications and improve our marketing efforts, we expect our subscription service revenue will grow with an expanded offering and increased market awareness.

Cost of Revenues

Our cost of revenues mainly consists of compensation benefit expenses for our professionals, material cost and travel expenses related to revenue contracts.

Our cost of revenues increased by \$3.2 million or 23.1% to approximately \$17.3 million in fiscal 2020 from approximately \$14.0 million in fiscal 2019, which was mainly attributable to an increase of \$2.8 million in cost of revenue from application development services in line with the increased application development service revenue. Our cost of revenue from consulting and technical support services was approximately \$1.8 million in fiscal 2020, representing an increase of \$0.5 million from \$1.3 million in fiscal 2019. The increase was primarily due to extra outsourcing maintenance service expense incurred during COVID-19 pandemic. Our cost of revenue from subscription services was approximately \$0.1 million in both fiscal 2020 and 2019. We have established a stable SaaS development and service team and expect to expand the scope of our services and enhance the features and functionalities of our applications and improve our marketing efforts.

Gross profit

	For the Years Ended			
	December 31,			
	2020		2019	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin
GROSS PROFIT				
Application development services	\$ 6,664,768	30.3%	\$ 3,167,120	20.1%
Consulting and technical support services	1,994,115	52.5%	1,968,529	59.5%
Subscription services	733,812	83.3%	929,062	87.1%
Total gross profit	\$ 9,392,695	35.2%	\$ 6,064,711	30.2%

Our gross profit increased by \$3.3 million or 54.9% from \$6.1 million in fiscal 2019 to \$9.4 million in fiscal 2020. Gross margin as a percent of overall revenue for fiscal 2020 and 2019 was 35.2% and 30.2%, respectively.

Gross profit for application development services increased by \$3.5 million or 110.4% from \$3.2 million in 2019 to \$6.7 million in fiscal 2020 mainly due to more application development service revenue in fiscal 2020. Gross profit margin for fiscal 2020 and 2019 was 30.3% and 20.1%, respectively. The increase in gross margin was primarily due to that we completed several high-value contracts in fiscal 2020, which brought economies of scale.

Gross profit for consulting and technical support services kept constant at approximately \$2.0 million for both fiscal 2020 and fiscal 2019. Mainly due to increased cost resulted from the outsourcing of maintenance service for the purpose of fulfilling scheduled maintenance and operating plan when we reducing staff and incorporating workforce optimization practices during the COVID-19 pandemic outbreak and spreading. Gross profit margin for fiscal 2020 and 2019 was 52.5% and 59.5%, respectively.

Gross profit for subscription services decreased by \$0.2 million or 21.0% from \$0.9 million in 2019 to \$0.7 million in fiscal 2020, which is due to decreased revenue but maintaining stable level of payroll benefit packages for employees. As a result, gross profit margin for fiscal 2020 was 83.3%, decreased from 87.1% in fiscal 2019.

Operating Expenses

	For the Years Ended			
	December 31,			
	2020	2019	Change	% Change
OPERATING EXPENSES:				
Selling and marketing	\$ 2,675,028	\$ 3,562,425	\$ (887,397)	(24.9)%
General and administrative	5,559,426	5,945,576	(386,150)	(6.5)%
Provision for doubtful accounts	191,148	3,293,600	(3,102,452)	(94.2)%
Research and development	2,780,944	2,163,658	617,286	28.5%
Share based compensation	1,473,976	2,351,890	(877,914)	(37.3)%
Total operating expenses	\$ 12,680,522	\$ 17,317,149	\$ (4,636,627)	(26.8)%

Our operating expenses consist of selling and marketing, general and administrative, research and development (“R&D”) expenses, provision for doubtful accounts and stock-based compensation. Operating expenses decreased by approximately \$4.6 million, or 26.8%, from approximately \$17.3 million for the year ended December 31, 2019 to \$12.7 million for the year ended December 31, 2020. The decrease in our operating expenses was primarily due to \$3.1 million decrease in provision for doubtful accounts, \$0.9 million decrease in selling and marketing expense, \$0.4 million decrease in general and administrative expense and \$0.9 million decrease in share-based compensation.

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 sales and marketing activities. Selling and marketing expenses decreased by \$0.9 million or 24.9% from \$3.6 million in fiscal 2019 to \$2.7 million in fiscal 2020. The decrease was primarily attributable to less marketing consulting fees and marketing and promotional activities in fiscal 2020.

General and administrative expenses primarily consisted of salary and compensation expenses relating to our accounting, human resources and executive office personnel, and included rental expenses, depreciation and amortization expenses, office overhead, professional service fees and travel and transportation costs. General and administrative expenses decreased by \$0.4 million or 6.5% from approximately \$5.9 million in fiscal 2019 to approximately \$5.6 million in fiscal 2020, due to less professional and consulting fees incurred relating to capital market development. As a percentage of revenues, general and administrative expenses were 20.8% and 29.6% of our total revenue in fiscal 2020 and 2019, respectively.

Provision for doubtful accounts decreased by approximately \$3.1 million from approximately \$3.3 million in fiscal 2019 to approximately \$0.2 million in fiscal 2020. In early 2020, Chinese government took strict and efficient measures to control and eliminate the spreading of COVID-19 pandemic and many of our customers started to reopen business and bring operation to normal level in the second half of 2020. After evaluating the age of the balance, the customer's payment history, current credit-worthiness, and current economic trends, we reduced the provision for doubtful accounts for fiscal 2020.

R&D expenses primarily consisted of compensation and benefit expenses relating to our R&D personnel as well as office overhead and other expenses relating to our R&D activities. Our R&D expenses increased by \$0.6 million from \$2.2 million in fiscal 2019 to \$2.8 million in fiscal 2020, representing 10.4% and 10.8% of our total revenues for fiscal 2020 and 2019, respectively. We expect to continue to invest in R&D. We expect that our ability to effectively utilize our R&D capabilities significantly affect our results of operations in the future.

Stock-based compensation decreased by approximately \$0.9 million from approximately \$2.4 million in fiscal 2019 to approximately \$1.5 million in fiscal 2020.

Other Income (Expense)

Other income (expense) primarily consists of government subsidy income, interest income net of interest expense and other expenses. Our net other expense was approximately \$15.2 million in fiscal 2020, compared with a net other income of approximately \$0.3 million in fiscal 2019. The increase in net other expense is substantially attributable to a \$15.3 million loss from change in the fair value of the convertible loan. The Company elected the fair value option to account for its convertible loans. The Group engaged an independent valuation firm to assess the fair value of the convertible loan using the binomial tree model. The convertible loans are classified as level 3 instruments as the valuation was determined based on unobservable inputs which are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. Significant estimates used in developing the fair value of the convertible loans include time to maturity, risk-free interest rate, straight debt discount rate, probability to convert and expected timing of conversion.

The following is a reconciliation of the beginning and ending balances for convertible loans measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2020:

	<u>2020</u>
Opening balance	\$ -
Issuance of convertible loan	50,000,000
Loss on change in fair value of convertible loan	15,258,333
Conversion of convertible loan	(65,258,333)
Total	<u>\$ -</u>

Provision for Income Taxes

Income tax benefit was approximately \$0.08 million in fiscal 2020, compared to income tax benefit of approximately \$0.2 million in fiscal 2019. Under the Income Tax Laws of the PRC, companies are generally subject to income tax at a rate of 25%. However, our major operating subsidiary - Powerbridge Zhuhai was recognized as the "high-tech enterprise" status, which reduced its statutory income tax rate to 15%. The rest of our subsidiaries in PRC are subject to income tax rate of 25%.

Net Loss

As a result of the foregoing, our net loss increased by \$7.6 million, or 70.2%, from \$10.8 million in fiscal 2019 to \$18.4 million in fiscal 2020. The increased net loss is mainly attributed to a \$15.3 million loss in change of fair value of the convertible loan, offset by an increase of \$3.3 million gross profit and a decrease of \$4.6 million total operating expenses.

Other comprehensive income (loss)

Foreign currency translation adjustments amounted to an income of approximately \$0.8 million and a loss of \$0.1 million for the years ended December 31, 2020 and 2019, respectively. The balance sheet amounts with the exception of equity as of December 31, 2020 were translated at RMB6.5250 to USD1.00 as compared to RMB6.9618 to USD1.00 as of December 31, 2019. The equity accounts were stated at their historical rate. The average translation rates applied to the income statements accounts for the years ended December 31, 2020 and 2019 were RMB6.9042 to USD1.00 and RMB6.9081 to USD1.00, 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 December 31, 2019 and 2018

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

	For the Years Ended December 31,		Change	% Change
	2019	2018		
REVENUES:				
Application development services	\$ 15,720,676	\$ 20,037,861	\$ (4,317,185)	(21.5)%
Consulting and technical support services	3,307,662	2,390,948	916,714	38.3%
Subscription services	1,066,720	723,458	343,262	47.4%
Total revenues	<u>20,095,058</u>	<u>23,152,267</u>	<u>(3,057,209)</u>	<u>(13.2)%</u>
COST OF REVENUES:				
Application development services	12,553,556	14,140,094	(1,586,538)	(11.2)%
Consulting and technical support services	1,339,133	1,093,631	245,502	22.4%
Subscription services	137,658	84,936	52,722	62.1%
Total cost of revenues	<u>14,030,347</u>	<u>15,318,661</u>	<u>(1,288,314)</u>	<u>(8.4)%</u>
GROSS PROFIT	<u>6,064,711</u>	<u>7,833,606</u>	<u>(1,768,895)</u>	<u>(22.6)%</u>
OPERATING EXPENSES:				
Selling and marketing	3,562,425	2,144,588	1,417,837	66.1%
General and administrative	5,945,576	2,316,058	3,629,518	156.7%
Provision for doubtful accounts	3,293,600	368,125	2,925,475	794.7%
Research and development	2,163,658	1,992,228	171,430	8.6%
Share based compensation	2,351,890	-	2,351,890	-%
Total operating expenses	<u>17,317,149</u>	<u>6,820,999</u>	<u>10,496,150</u>	<u>153.9%</u>
OPERATING (LOSS) INCOME FROM OPERATIONS	<u>(11,252,438)</u>	<u>1,012,607</u>	<u>(12,265,045)</u>	<u>(1211.2)%</u>
OTHER INCOME	252,109	584,209	332,100	(56.8)%
(LOSS) INCOME BEFORE INCOME TAXES	(11,000,329)	1,596,816	(12,597,145)	(788.9)%
INCOME TAX (BENEFITS) EXPENSES	<u>(213,347)</u>	<u>43,190</u>	<u>(256,537)</u>	<u>(594.0)%</u>
NET (LOSS) INCOME	<u>\$ (10,786,982)</u>	<u>\$ 1,553,626</u>	<u>\$ (12,340,608)</u>	<u>(794.3)%</u>

Revenues

We derive revenues from three sources: (1) revenue from application development services, (2) revenue from consulting and technical support services, and (3) revenue from subscription services. Please refer to the Revenue portion of the table above for the dollar and percentage increase or (decrease) of our revenues by our service lines ended December 31, 2019 and 2018, respectively.

The Company is focusing on developing global trade applications and solutions equipped with the Company's new technology in SaaS platform, Big Data, AI and IoT applications and BaaS platform. The Company believes new technology development is the key driver for the Company's future growth. In fiscal 2019, our revenue related to deploying our new technology including SaaS and big data analysis services accounted for 14.8% of our total revenue (or approximately \$3.0 million) compared to 17.4% of our total revenue (or approximately \$4.0 million) in fiscal 2018.

For the year ended December 31, 2019, our total revenue was approximately \$20.1 million as compared to \$23.2 million for the year ended December 31, 2018. The Company's total revenue decreased by approximately \$3.1 million, or 13.2%. The overall decrease in total revenue was primarily attributable to \$4.3 million decrease in revenue from application development services, in which, 6.8% of revenue from application development services is attributable to the Company's SaaS and big data analysis related application development services in fiscal 2019, which was decreased from 15.6% in fiscal 2018.

Revenue from application development services

The Company's application development service contracts are primarily on a fixed-price basis, which require the Company to perform services including project planning, project design, application development and system integration based on customers' specific needs. These services also require significant production and customization. Revenue from application development service is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations.

For the year ended December 31, 2019, our application development service revenue was approximately \$15.7 million as compared to \$20.0 million for the year ended December 31, 2018. The decrease in application development service revenue was approximately \$4.3 million or 21.5% due to less projects completed in fiscal 2019 and reduced individual project size. In certain application development service arrangements, the Company sold IT equipment prior to the delivery of the services. Such revenue was \$1,554,428 in fiscal 2019, significantly decreased from \$8,069,594 of related revenue in fiscal 2018. In addition, in fiscal 2019, 6.8% (or approximately \$1.1 million) of revenue from application development service were related to SaaS platform development and big data analysis applications, comparing to 15.6% (or approximately \$3.1 million) of the related revenue in fiscal 2018. Despite to the temporary slowdown in SaaS platform and big data analysis related application development service revenue in fiscal 2019, we intend to continue investing for long-term growth in the SaaS development and big data analysis market and we plan to continue to expand our ability to sell our applications by investing in product development and customer support to address the business needs of local markets and continuous growth for these services.

Revenue from consulting and Technical Support Services

Revenue from consulting and technical support services is primarily comprised of fixed-fee contracts, which require the Company to provide professional consulting and technical support services over contract terms beginning on the commencement date of each contract, which is the date its service is made available to customers. Billings to the customers are generally on a monthly or quarterly basis over the contract term, which is typically 12 to 24 months. The consulting and technical support services contracts typically include a single performance obligation. The revenue from consulting and technical support services is recognized over the contract term on a straight-line basis as customers receive and consume benefits of such services.

For the year ended December 31, 2019, our consulting and technical support service revenue was approximately \$3.3 million as compared to \$2.4 million for the year ended December 31, 2018, representing an increase of \$0.9 million or 38.3%, which was due to more technical consulting services requests from our existing clients. In addition, by providing application development services, we gain extensive understanding and knowledge of each customer's unique business needs, often resulting in opportunities for us to cross-sell our consulting and technical support services.

Revenue from subscription services

Revenue from subscription services is comprised of subscription fees from customers accessing the Company's software-as-a-service applications. The Company's monthly or quarterly billing to customer is on the basis of number of uses or the actual usage by the customers. The subscription services contracts typically include a single performance obligation. The revenue from subscription services is recognized over the contract term on a straight-line basis or based on the actual usage as customers receive and consume benefits of such services.

For the year ended December 31, 2019, our subscription service revenue was approximately \$1.1 million as compared to \$0.7 million for the year ended December 31, 2018. We introduced our SaaS subscription services in fiscal 2016 and continue to expand the scope of our services and enhance the features and functionalities of our applications and improve our marketing efforts, we expect our subscription service revenue will grow with an expanded offering and increased market awareness.

Cost of Revenues

Our cost of revenues mainly consists of compensation benefit expenses for our professionals, material cost and travel expenses related to revenue contracts. Please refer to the Cost of Revenue portion of the table above for the dollar and percentage increase or (decrease) of our cost of revenues ended December 31, 2019 and 2018, respectively.

Our cost of revenues decreased by \$1.3 million or 8.4% to approximately \$14.0 million in fiscal 2019 from approximately \$15.3 million in fiscal 2018, which was mainly attributable to a decrease of \$1.6 million in of cost of revenue from application development services in line with the reduced application development service revenue. Our cost of revenue from consulting and technical support services was approximately \$1.3 million in fiscal 2019, representing an increase of \$0.2 million from \$1.1 million in fiscal 2018. The increase was primarily due to more headcount in the expanded technical service team to support the related growth in revenue. Our cost of revenue from subscription services was approximately \$0.1 million in both fiscal 2019 and 2018. We have established a stable SaaS development and service team and expect to expand the scope of our services and enhance the features and functionalities of our applications and improve our marketing efforts.

Gross profit

	For the Years Ended			
	December 31,			
	2019		2018	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin
GROSS PROFIT				
Application development services	\$ 3,167,120	20.1%	\$ 5,897,767	29.4%
Consulting and technical support services	1,968,529	59.5%	1,297,317	54.3%
Subscription services	929,062	87.1%	638,522	88.3%
Total gross profit	\$ 6,064,711	30.2%	\$ 7,833,606	33.8%

Our gross profit decreased by \$1.8 million or 22.6% from \$7.8 million in 2018 to \$6.1 million in fiscal 2019. Gross margin as a percent of overall revenue for fiscal 2019 and 2018 was 30.2% and 33.8%, respectively.

Gross profit for application development services decreased by \$2.7 million or 46.3% from \$5.9 million in 2018 to \$3.2 million in fiscal 2019 mainly due to less application development service revenue in fiscal 2019. Gross profit margin for fiscal 2019 and 2018 was 20.1% and 29.4%, respectively. The decrease in gross margin was primary due to increased headcount in developers during the year and expanded office facilities with the related expense in fiscal 2019.

Gross profit for consulting and technical support services increased by \$0.7 million or 51.7% from \$1.3 million in 2018 to \$2.0 million in fiscal 2019 mainly due to increased revenue from growing demands for our new SaaS and big data analysis services from our existing customers. Gross profit margin for fiscal 2019 and 2018 was 59.5% and 54.3%, respectively.

Gross profit for subscription services increased by \$0.3 million or 45.5% from \$0.6 million in 2018 to \$0.9 million in fiscal 2019, which is in line with subscription services revenue growth. Gross profit margin for fiscal 2019 and 2018 was 87.1% and 88.3%, respectively.

Operating Expenses

	For the Years Ended December 31,			
	2019	2018	Change	% Change
OPERATING EXPENSES:				
Selling and marketing	\$ 3,562,425	\$ 2,144,588	\$ 1,417,837	66.1%
General and administrative	5,945,576	2,316,058	3,629,518	156.7%
Provision for doubtful accounts	3,293,600	368,125	2,925,475	794.7%
Research and development	2,163,658	1,992,228	171,430	8.6%
Share based compensation	2,351,890	-	2,351,890	-%
Total operating expenses	<u>\$ 17,317,149</u>	<u>\$ 6,820,999</u>	<u>\$ 10,496,150</u>	153.9%

Our operating expenses consist of selling and marketing, general and administrative, research and development (“R&D”) expenses and stock based compensation. Operating expenses increased by approximately \$10.5 million, or 153.9%, from approximately \$6.8 million for the year ended December 31, 2018 to \$17.3 million for the year ended December 31, 2019. The increase in our operating expenses was primarily due to \$3.6 million increase in general and administrative expense, \$2.9 million increase in provision for doubtful accounts, \$1.4 million increase in selling and marketing expense and \$2.4 million increase in share-based compensation.

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 sales and marketing activities. Selling and marketing expenses increased by \$1.4 million or 66.1% from \$2.1 million in fiscal 2018 to \$3.6 million in fiscal 2019. The increase was primarily attributable to additional marketing consulting fees and marketing expense to support our expansion.

General and administrative expenses primarily consisted of salary and compensation expenses relating to our accounting, human resources and executive office personnel, and included rental expenses, depreciation and amortization expenses, office overhead, professional service fees and travel and transportation costs. General and administrative expenses increased by \$3.6 million or 156.7% from approximately \$2.3 million in fiscal 2018 to approximately \$5.9 million in fiscal 2019, substantially all of which were attributable to the additional consulting fees was incurred relating to capital market development and promotions. As a percentage of revenues, general and administrative expenses were 29.6% and 10.0% of our total revenue in fiscal 2019 and 2018, respectively.

Provision for doubtful accounts increased by approximately \$2.9 million from approximately \$0.4 million in fiscal 2018 to approximately \$3.3 million in fiscal 2019. In December 2019 and following in the first quarter of 2020, the COVID-19 pandemic and the actions taken by various governments and our customers to combat the spread of COVID-19 (including, in some cases, mandatory quarantines and other suspensions of non-essential business operations) have led to extensive temporary disruptions of businesses. Many of our customers have delayed their payments to us, which caused the significant increase in our aged accounts receivable balance over one year and slow collection progress in the first quarter of 2020. Given the uncertainties in the timing of the ultimate collection, we increased the estimated probability of default and credit loss, as a result, our provision for doubtful accounts increased to \$3.3 million in 2019 and we also wrote off approximately \$2.0 million accounts receivable after our exhaustive collection efforts.

R&D expenses primarily consisted of compensation and benefit expenses relating to our R&D personnel as well as office overhead and other expenses relating to our R&D activities. Our R&D expenses increased by \$0.2 million from \$2.0 million in fiscal 2018 to \$2.2 million in fiscal 2019, representing 10.8% and 8.6% of our total revenues for fiscal 2019 and 2018, respectively. We expect to continue to invest in R&D. We expect that our ability to effectively utilize our R&D capabilities significantly affect our results of operations in the future.

Other Income (Expense)

Other income (expense) primarily consists of government subsidy income, interest income net of interest expense and other expenses. Our net other income was approximately \$0.3 million in fiscal 2019, compared with a net other income of approximately \$0.6 million in fiscal 2018. The decrease of other income is attributable to a \$0.2 million decrease in other income offset by a \$0.1 million increase in financing expense.

Provision for Income Taxes

Our provision for income tax was approximately \$(0.2) million in fiscal 2019, decreased by \$0.3 million comparing to fiscal 2018 due to loss before taxes in fiscal 2019. Under the Income Tax Laws of the PRC, companies are generally subject to income tax at a rate of 25%. However, our major operating subsidiary - Powerbridge Zhuhai was recognized as the “high-tech enterprise” status, which reduced its statutory income tax rate to 15%. The rest of our subsidiaries in PRC are subject to income tax rate of 25%.

Net Income (Loss)

As a result of the foregoing, we incurred a net loss of approximately \$10.8 million, compared with a net income of approximately \$1.6 million for fiscal 2018.

Other comprehensive income (loss)

Foreign currency translation adjustments amounted to a loss of approximately \$102,000 and \$339,000 for the years ended December 31, 2019 and 2018, respectively. The balance sheet amounts with the exception of equity as of December 31, 2019 were translated at RMB6.9618 to USD1.00 as compared to RMB6.8755 to USD1.00 as of December 31, 2018. The equity accounts were stated at their historical rate. The average translation rates applied to the income statements accounts for the years ended December 31, 2019 and 2018 were RMB6.9081 to USD1.00 and RMB6.6090 to USD1.00, 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

Substantially all of our operations are conducted in China and all of our revenue, expenses, and cash 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 December 31, 2020, cash of approximately \$8.4 million were fully held by the Company and its subsidiary in mainland PRC.

The Cayman holding company is a holding company with no material operations of its own. We conduct our operations primarily through our subsidiary in China. As a result, the Company's ability to pay dividends depends upon dividends paid by our subsidiary. Our subsidiary in China are permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, our subsidiary is required to set aside at least 10% of its after-tax profits each year based on PRC accounting standards, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. The statutory reserve funds are not distributable as cash dividends. Remittance of dividends by our subsidiary out of China is subject to examination by the banks designated by SAFE. Our subsidiary has not paid dividends and will not be able to pay dividends until it generates accumulated profits and meet the requirements for statutory reserve funds. In addition, we would need to accrue and pay withholding taxes if we were to distribute funds from our subsidiary in China to us. 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.

On April 4, 2019, the Company consummated its initial public offering (“IPO”) of 2,012,500 Ordinary Shares at a price of \$5.00 per shares including the exercise in full of the underwriters' over-allotment option of 262,500 ordinary shares at IPO price of \$5.00 per share. The gross proceeds from the IPO was \$10,062,500 and the net proceeds was \$8,021,987. As a result of the IPO, the Ordinary Shares now trade on the Nasdaq Capital Market under the symbol “PBTS.”

For the year ended December 31, 2020, the Company had working capital of \$1.3 million and incurred a net loss of \$18.4 million. For fiscal 2020, the Company had operation cash flow of \$1.1 million. The Company has historically funded its working capital needs primarily from public offering, operations, bank loans, advance payments from customers and shareholders. The working capital requirements are affected by the efficiency of operations, the numerical volume and dollar value of revenue contracts, the progress or execution on customer contracts, and the timing of accounts receivable collections. The COVID-19 pandemic created significant economic uncertainty and volatility in the credit and capital markets since December 2019. Many customers have delayed their payments to the Company, which caused the significant increase in the Company's aged accounts receivable balance over one year in fiscal 2019. In early 2020, Chinese government took strict and efficient measures to control and eliminate the spreading of COVID-19 pandemic and many of our customers started to reopen business and bring operation to normal level in the second half of 2020. After evaluating the age of the balance, the customer's payment history, current credit-worthiness, and current economic trends, the Company reduced the provision for doubtful accounts for fiscal 2020.

In assessing its liquidity, the Company monitors and analyzes its cash on hand, its ability to generate sufficient revenue sources in the future and its operating and capital expenditure commitments. As of December 31, 2020, the Company had cash of approximately \$8.4 million. To support its working capital, the Company entered into several securities purchase agreement in 2021. On January 8, 2021, the Company entered into a securities purchase agreement with Uptown Capital, LLC, pursuant to which the Company issued an unsecured promissory note on in the original principal amount of \$1,650,000, convertible into ordinary shares, par value \$0.00166667 per share, of the Company, for \$1,500,000 in gross proceeds. On February 23, 2021, the Company entered into a Sales Agreement with A.G.P./Alliance Global Partners, as sales agent, pursuant to which the Company may offer and sell up to \$30,000,000 of its ordinary shares, par value \$0.00166667 per share. On April 9, 2021, the Company entered into a securities purchase agreement with YA II PN, LTD., pursuant to which the Company sells convertible notes in the principal amount of US\$7,000,000 and a warrant to purchase 571,429 Ordinary Shares, for gross proceeds of approximately US\$6,790,000. The Company believes that its cash on hand and financing cash flows will be sufficient to fund its operations over at least the next 12 months from the date of this report. However, the Company may need additional cash resources in the future if the Company experiences changed business conditions or other developments, and may also need additional cash resources in the future if the Company wishes to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If it is determined that the cash requirements exceed the Company's amounts of cash on hand, the Company may seek to issue debt or equity securities or obtain a credit facility.

The following summarizes the key components of our cash flows for the years ended December 31, 2020 and 2019.

	For the Years Ended		
	December 31,		
	2020	2019	2018
Net cash provided by (used in) operating activities	\$ 1,051,741	\$ (3,260,594)	\$ 2,930,295
Net cash used in investing activities	(65,904,533)	(3,594,121)	(1,317,831)
Net cash provided by financing activities	70,043,789	7,884,405	598,491
Effect of exchange rate change on cash and restricted cash	(2,745,717)	(103,426)	(249,345)
Net increase in cash and restricted cash	<u>\$ 2,445,280</u>	<u>\$ 926,264</u>	<u>\$ 1,961,610</u>

Operating Activities

Net cash provided by operating activities was approximately \$1.1 million for the year ended December 31, 2020, as compared to approximately \$3.3 million net cash used in operating activities for fiscal 2019. Cash provided by operating activities for the year ended December 31, 2020 mainly consisted of approximately \$18.4 million of net loss, adjustment of \$18.3 million non-cash items, an increase of approximately \$3.0 million in accounts payable due to more purchase in 2020, offset by an increase of approximately \$2.0 million in accounts receivable, an increase of \$1.2 million prepayment, deposits and other assets due to increasing purchase from our vendors, and an increase of approximately \$0.8 million in contract costs incurred for the customer contracts.

Net cash used in operating activities was approximately \$3.3 million for the year ended December 31, 2019. Cash used in operating activities for the year ended December 31, 2019 mainly consisted of approximately \$10.8 million of net loss, adjustment of \$6.4 million non-cash items, and an increase of approximately \$3.0 million in contract assets, offset by an increase of approximately \$3.8 million in accounts payable due to increased purchase for our projects.

Cash provided by operating activities for the year ended December 31, 2018 mainly consisted of approximately \$1.6 million of net income, the increase of approximately \$4.9 million of accounts payable, offset by the increase of approximately \$3.5 million in accounts receivable due to increase of revenue, the payments of approximately \$0.8 million of prepayments, deposits and other assets.

Our accounts payable balance significantly increased from approximately \$19.8 million as of December 31, 2019 to \$24.3 million as of December 31, 2020. The increase in accounts payable was mainly due to increased purchase from our suppliers and subcontractors for the ongoing projects with our customers. 84.5% and 72.2% of our accounts payable balances with suppliers are due when the Company received customer payment on the projects as of December 31, 2020 and 2019, respectively. Based on the long-term relationship, we might be able to slow down payments based on the Company's working capital. We have never entered into any long-term financing arrangements with our suppliers.

The significant account receivable balances as of December 31, 2020 and 2019 was because of the increasing contract volume and contract progress for certain large contracts with our customers. During fiscal 2020, the Company recognized revenue from 138 major contracts, compared with 133 major contracts in fiscal 2019. Most of large contracts are government related customized application development service contracts. The Company enters into fixed-fee arrangements in standard multiple-phase customized application development service contracts with government related agencies and state-owned companies. The billing term can vary depending on each specific project. Generally speaking, the Company bills the customer 20% to 30% of total fee upon signing the contract, 20% to 30% of total fee upon completion of developing, implementing and testing the customized applications and the remaining 30% to 50% of total fee is billed after the customer internally approves the project and signs off the acceptance form. The Company does not specify the payment term in all contracts with customers, but, in practice, the Company's billing term with customers are generally within 90 days. For these large government related customized application development service contracts, the government's acceptance and payment process requires multiple levels of government officials' approvals, including but not limited to approvals from ten national government bureaus at national level then final approval from local government level. The timing of receiving the final approval and payment might be longer than the Company's expectation. The billing terms are typically agreed by the parties at the inception of the contract, not subsequently negotiated or modified. In most cases, the Company are entitled to payments for the work performed and such payment are not conditioned on the final acceptance by our customer while under certain contracts with government related agencies and stated-owned companies, customer acceptance is a condition to final payments. Nevertheless, in practice, the Company tends to satisfy customers and is willing to perform additional work to receive a final acceptance from customers. Additional performance is considered inconsequential or perfunctory, because the Company always implements the customized applications at the customers' sites and complete the testing prior to the customers' acceptance. From past experience, the Company has never received rejections from its customers. The Company also has never entered into extended payment terms or concessions with any of its customers for the years ended December 31, 2020 and 2019.

The aging of accounts receivables are as follows:

	December 31, 2020	December 31, 2019
0-90 days	\$ 2,990,475	\$ 4,546,019
90-180 days	366,786	168,864
180-360 days	2,801,315	410,510
over one year	2,211,269	1,919,441
Sub total	<u>8,369,845</u>	<u>7,044,834</u>
Current (billed accounts receivable within payment terms)	2,990,475	4,546,019
Past due	5,379,370	2,498,815
Sub-total billed accounts receivable	<u>8,369,845</u>	<u>7,044,834</u>
Unbilled accounts receivable	7,526,282	5,865,900
Allowance for billed accounts receivable	<u>(1,581,142)</u>	<u>(1,669,658)</u>
Total accounts receivable, net	<u>\$ 14,314,985</u>	<u>\$ 11,241,076</u>

The net total accounts receivables increased by \$3.1 million, or 27.3%, from \$11.2 million for the year ended December 31, 2019 to \$14.3 million for the year ended December 31, 2020, which is mainly due to billings for multiple large size project contracts which was secured in prior to fiscal 2020 and rescheduled and executed in fiscal 2020.

The significant outstanding accounts receivable balances were mainly related to certain government customers. Due to multiple levels of the government approval process for payments, from our past experience, it could take extra time for us to collect the full proceeds from government customers. They generally negotiated to pay us in three or less phases through the contract term and a significant portion (50%) of contract amount usually is billed in the last phase upon the completion of the related projects. The average accounts receivable turnover in days for the years ended December 31, 2020 and 2019 was 192 days and 261 days, respectively.

As of March 31, 2021, approximately \$2.1 million (or 13.5%) of total accounts receivable as of December 31, 2020 was collected. It represented 23% of billed accounts receivable balance and 3% of unbilled accounts receivable balance as of December 31, 2020 were subsequently collected, respectively.

Investing Activities

Net cash used in investing activities was approximately \$65.9 million for fiscal 2020, as compared to approximately \$3.6 million for fiscal 2019. Cash used in investing activities for fiscal 2020 was mainly due to \$1.6 million spending on purchases of property and equipment and \$64.3 million increase in working capital loan provided to Kezhi Technology Co., Ltd. ("Kezhi") which will be repaid in two years and the repayment of the loan is guaranteed by a third party.

Cash used in investing activities for fiscal 2019 was mainly due to approximately \$2.9 million spending on capitalized development costs and purchase of office equipment and furniture and approximately \$0.7 million loan to third parties.

Cash used in investing activities for fiscal 2018 was mainly due to approximately \$2.2 million spending on capitalized development costs and purchase of office equipment and furniture, offset by approximately \$0.8 million collection on loan to others.

Financing Activities

Net cash from financing activities was approximately \$70.0 million for fiscal 2020, as compared to approximately \$7.9 million for fiscal 2019. Net cash provided by financing activities for the year ended December 31, 2020 was mainly from the proceeds of \$50 million from issuance of convertible note and \$17.6 million from private placement, \$6.5 million proceeds from bank loan, offset by repayment of \$3.8 million on bank loan, and \$0.3 million repayment to related party.

Net cash provided by financing activities for the year ended December 31, 2019 mainly included \$8.0 million net proceeds from IPO, \$1.6 million proceeds from bank loan, offset by repayment of \$1.6 million bank loan.

Net cash from financing activities for the year ended December 31, 2018 was mainly due to proceeds from bank loan of \$1.6 million offset by repayment of bank loan of \$0.2 million and repayment of related party advance of \$0.8 million.

Capital Expenditures

The Company made capital expenditures of \$1.6 million, \$2.9 million and \$2.2 million for the years ended December 31, 2020, 2019 and 2018, respectively. In these periods, our capital expenditures were mainly used for purchases of office equipment, furniture and payments for capitalized development cost. The Company will continue to make capital expenditures to meet the expected growth of its business.

Contractual Obligations

The Company had an outstanding bank loan of approximately \$4.6 million as of December 31, 2020. The Company has also entered into non-cancellable operating lease agreements for several offices and dormitory spaces for its employees. The leases are expiring through 2022.

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2020:

	Payment Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Operating lease arrangements	\$ 285,455	\$ 204,442	\$ 81,013	\$ -	\$ -
Bank loans	4,597,701	4,597,701	-	-	-
Total	\$ 4,883,156	\$ 4,802,143	\$ 81,013	\$ -	\$ -

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements for the years ended December 31, 2020 and 2019 that have or that in the opinion of management are likely to have, a current or future material effect on our financial condition or results of operations.

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.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods presented. Significant accounting estimates reflected in the Company's consolidated financial statements include but not limited to the useful lives of property and equipment and capitalized development cost, impairment of long-lived assets, valuation of accounts receivables, loans to third parties, revenue recognition and realization of deferred tax assets and uncertain tax positions. Actual results could differ from these estimates.

Foreign currency translation

The functional currencies of the Company are the local currency of the county in which the subsidiaries operates. The Company's financial statements are reported using U.S. Dollars. The results of operations and the consolidated statements of cash flows denominated in foreign currencies are translated at the average rates of exchange during the reporting period. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange in effect at that date. The equity denominated in the functional currencies is translated at the historical rates of exchange at the time of capital contributions. Because cash flows are translated based on the average translation rates, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets. Translation adjustments arising from the use of different exchange rates from period to period are included as a separate component of accumulated other comprehensive income (loss) included in consolidated statements of changes in equity. Gains and losses from foreign currency transactions are included in the consolidated statement of operations and comprehensive income (loss).

Fair value measurement

ASC 825-10 requires certain disclosures regarding the fair value of financial instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted market prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable and inputs derived from or corroborated by observable market data.
- Level 3 — inputs to the valuation methodology are unobservable.

Unless otherwise disclosed, the fair value of the Company's financial instruments including cash, notes and accounts receivable, due from related parties, prepayments, deposits and other current assets, notes and accounts payable, customer deposits, salaries and benefits payables, due to related party and taxes payable approximates their recorded values due to their short-term maturities. The fair value of the long-term prepayments, deposits and other assets and loans to third parties approximate their carrying amounts because the deposits were paid in cash.

The Company elected the fair value option to account for its convertible loan. The Company engaged an independent valuation firm to perform the valuation. The fair value of the convertible loans is calculated using the binomial tree model. The convertible loans are classified as level 3 instruments as the valuation was determined based on unobservable inputs which are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. Significant estimates used in developing the fair value of the convertible loans include time to maturity, risk-free interest rate, straight debt discount rate, probability to convert and expected timing of conversion. Refer to Note 10 for additional information.

As the inputs used in developing the fair value for level 3 instruments are unobservable, and require significant management estimate, a change in these inputs could result in a significant change in the fair value measurement.

The following is a reconciliation of the beginning and ending balances for convertible loans measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2020:

	<u>2020</u>
Opening balance	\$ -
Issuance of convertible loan	50,000,000
Loss on change in fair value of convertible loan	15,258,333
Conversion of convertible loan	(65,258,333)
Total	<u>\$ -</u>

Accounts receivable, net

Accounts receivable, net, is stated at the original invoiced amount net of write-offs and allowance for doubtful accounts. The Company reviews the accounts receivable on a periodic basis and makes allowances when there is doubt as to the collectability of individual balances. Past-due balances over 90 days are reviewed individually for collectability. In evaluating the collectability of individual accounts receivable balances, the Company considers several factors, including the age of the balance, the customer's payment history, current credit-worthiness, and current economic trends. Accounts receivable balances are written off after all collection efforts have been exhausted. Typically, the Company includes unbilled receivables in accounts receivable for contracts on which revenue has been recognized, but for which the customer has not yet been billed. Unbilled receivables, substantially all of which are expected to be billed within one year are stated at their estimated realizable value and consist of costs and fees billable on contract completion or the occurrence of contractual payment phase.

Prepayments, deposit and other assets

Prepayment, deposit and other assets, net, primarily consists of advances to suppliers for purchasing goods or services that have not been received or provided; security deposits made to our customers; advances to employees and loan receivables from business partners. Prepayment, deposit and other assets are classified as either current or non-current based on the terms of the respective agreements. These advances are unsecured and are reviewed periodically to determine whether their carrying value has become impaired.

Property and equipment, net

Property and equipment, net, are mainly comprising furniture and furniture, vehicles, computer and equipment are stated at cost less accumulated depreciation and impairment. Property and equipment are depreciated over the estimated useful lives of the assets on a straight-line basis, after considering the estimated residual value.

The estimated useful lives are as follows:

	<u>Useful Life</u>
Office equipment, fixtures, and furniture	3-10 years
Automobiles	5-8 years
Capitalized development costs and software acquired	5-10 years
Computer equipment	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 the 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 income.

Capitalized development costs

The Company follows the provisions of Accounting Standards Codification (“ASC”) 350-40, “Internal Use Software.” ASC 350-40 provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use. The Company expenses all costs incurred during the preliminary project stage of its development, and capitalizes costs incurred during the application development stage. Costs incurred relating to upgrades and enhancements to the application are capitalized if it is determined that these upgrades or enhancements add additional functionality to the application. The capitalized development cost is amortized on a straight-line basis over the estimated useful life, which is generally five years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Impairment for long-lived assets

Long-lived assets, including property, equipment, furniture and fixtures and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not 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 assessed discounted cash flow amount.

Revenue recognition

The Company adopted ASC Topic 606 Revenue from Contracts with Customers (“ASC 606”) on January 1, 2019 using the modified retrospective approach. Revenues for the year ended December 31, 2020 and 2019 were presented under ASC 606, and revenues for the years ended December 31, 2018 were not adjusted and continue to be presented under ASC Topic 605, Revenue Recognition. There is no adjustment to the opening balance of retained earnings at January 1, 2019 since there was no change to the timing and pattern of revenue recognition upon adoption of ASC 606. Under ASC 606, revenue is recognized when control of promised goods or services is transferred to the Company’s customers in an amount of consideration to which an entity expects to be entitled to in exchange for those goods or services and is recorded net of value-added tax (“VAT”). To achieve that core principle, the Group applies the following steps:

- Step 1: Identify the contract (s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Company derives its revenues from three sources: (1) revenue from application development services, (2) revenue from consulting and technical support services, and (3) revenue from subscription services. All of the Company's contracts with customer do not contain cancelable and refund-type provisions.

(1) Revenue from application development service

The Company's application development service contracts are primarily on a fixed-price basis, which require the Company to perform services including project planning, project design, application development and system integration based on customers' specific needs. These services also require significant production and customization. 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 three years ("PCS period") after the customized application development services are delivered. The type of services for PCS clause is generally not specified in the contracts or as stand-ready services on when-and-if-available basis. The unspecified PCS is stand-ready service on when-and-if-available basis. It grants the customers on line and telephone access to technical support personnel during the term of the service. Specified PCS includes specified service term in the contract such as training.

The Company's application development service revenues are generated primarily from contracts with PRC government or related agencies and state-owned enterprises. The contracts contain negotiated billing terms which generally include multiple payment phases throughout the contract term and a significant portion (30% - 50%) of contract amount usually is billed upon the completion of the related projects. Pursuant to the contract terms, the Company has enforceable right on payments for the work performed.

The Company sometimes provides a warranty for its application development service contracts. The warranty period is typically 12-36 months upon the completion of the application development service. In accordance with ASC 606-10-25-19, the Company believes the warranty provision in the contracts generally represents service-type warranty, which is a distinct performance obligation and the Company also provides the similar service on standalone basis and customers can benefit from the related service-type warranty service. For the service warranty component, the customer simultaneously receives and consumes the benefits provided by the company performance over the warranty term, therefore, the service warranty is satisfied over time. The revenue allocated to the service warranty is recognized over the warranty period.

The Company assesses that application development service, PCS or specific service and service-type warranty service, if applicable, are distinct performance obligations in the application development service contracts. The Company provides these services on standalone basis and customers are able to benefit from each of the service on its own. In addition, the timing of delivery of these performance obligations can be separately identifiable in the contracts. The transaction price is allocated to these identified performance obligations based on the relative standalone selling prices. The transaction price allocated to PCS or unspecific service and service-type warranty, if applicable, on a straight-line method over the contractual period. Revenue allocated to specified PCS is recognized as the related services are rendered. The transaction price allocated to application development service is recognized over time as the Company's performance creates or enhances the project controlled by the customer and the control is transferred continuously to our customers. The Company uses an input method based on cost incurred as the Company believes that this method most accurately reflects the Company's progress toward satisfaction of the performance obligation, which usually takes less than one year. Under this method, the transaction price allocated to application development service is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations.

Incurred costs include all direct material, labor and subcontract costs, and those indirect costs related to application development performance, such as indirect labor, supplies, and tools. Cost-based input method requires the Company to make estimates of revenues and costs to complete the construction. In making such estimates, significant judgment is required to evaluate assumptions related to the costs to complete the application development, including materials, labor, and other system costs. The Company's estimates are based upon the professional knowledge and experience of our engineers and project managers to assess the contract's schedule, performance, technical matters. The Company has adequate cost history and estimating experience, and with respect to which management believes it can reasonably estimate total development costs. If the estimated costs are greater than the related revenues, the Company recognizes the entire estimated loss in the period the loss becomes known and can be reasonably estimated. Changes in estimates for application development services include but not limited to cost forecast changes and change orders. The cumulative effect of changes in estimates is recorded in the period in which the revisions to estimates are identified and the amounts can be reasonably estimated. To date, the Company has not incurred a material loss on any contracts. However, as a policy, provisions for estimated losses on such engagements will be made during the period in which a loss becomes probable and can be reasonably estimated. If contract modifications result in additional goods or services that are distinct from those transferred before the modification, they are accounted for prospectively as if the Company entered into a new contract. If the goods or services in the modification are not distinct from those in the original contract, sales and gross profit are adjusted using the cumulative catch-up method for revisions in estimated total contract costs and contract values.

In certain application development service arrangements, the Company sells and delivers IT equipment on standalone basis prior to the delivery of the services. In these cases, the Company controls the IT equipment before they are transferred to the customer. The Company has the right to direct the suppliers and control the goods or assets transferred to its customers. Thus, the Company considers it should recognize revenue as a principal in the gross amount of consideration to which it is entitled in exchange for the IT equipment delivered. The Company assesses the sale of equipment is separately identifiable from other promises in the contract and it is distinct performance obligation within the context of the contract. Accordingly, the revenue from the related IT equipment based on its relative standalone selling price is recognized upon customer acceptance after delivery.

(2) Revenue from consulting and technical support services

Revenue from consulting and technical support services is primarily comprised of fixed-fee contracts, which require the Company to provide professional consulting and technical support services over contract terms beginning on the commencement date of each contract, which is the date its service is made available to customers. Billings to the customers are generally on a monthly or quarterly basis over the contract term, which is typically 12 to 24 months. The consulting and technical support services contracts typically include a single performance obligation. The revenue from consulting and technical support services is recognized over the contract term on a straight-line basis as customers receive and consume benefits of such services.

(3) Revenue from subscription services

Revenue from subscription services is comprised of subscription fees from customers accessing the Company's software-as-a-service applications for a subscribed period. The Company's monthly or quarterly billing to customer is on the basis of number of uses or the actual usage by the customers. The subscription arrangements are considered service contracts because customers does not have the right to take possession of the software and can only benefit from the software when provided the right to access the software. Accordingly, the subscription services contracts typically include a single performance obligation. The revenue from subscription services is recognized over the contract term on a straight-line basis or based on the actual usage as customers receive and consume benefits of such services.

Revenue includes reimbursements of travel and out-of-pocket expense, with equivalent amounts of expense recorded in cost of revenue. The Company reports revenues net of value added tax ("VAT"). The Company's subsidiary in PRC are subject to a 6% to 13% value added tax ("VAT") and related surcharges on the revenues earned from providing services.

Practical Expedient and Exemptions

The Company does not disclose the value of unsatisfied performance obligations within one year by applying the right to invoice practical expedient provided by ASC 606-10-55-18.

Contract costs

Contract costs include contract acquisition costs and contract fulfillment costs which are all recorded within prepayments, deposits, and other assets in the consolidated balance sheets.

Contract acquisition costs consist of incremental costs incurred by the Company to originate contracts with customers. Contract acquisition costs, which generally include costs that are only incurred as a result of obtaining a contract, are capitalized when the incremental costs are expected to be recovered over the contract period. All other costs incurred regardless of obtaining a contract are expensed as incurred. Contract acquisition costs are amortized over the period the costs are expected to contribute directly or indirectly to future cash flows, which is generally over the contract term, on a basis consistent with the transfer of goods or services to the customer to which the costs relate. Contract fulfillment costs consist of costs incurred by the Company to fulfill a contract with a customer and are capitalized when the costs generate or enhance resources that will be used in satisfying future performance obligations of the contract and the costs are expected to be recovered. Capitalized contract fulfillment costs generally include contracted services, direct labor, materials, and allocable overhead directly related to resources required to fulfill the contract. Contract fulfillment costs are recognized in cost of revenue during the period that the related costs are expected to contribute directly or indirectly to future cash flows, which is generally over the contract term, on a basis consistent with the transfer of goods or services to the customer to which the costs are related. The contract fulfillment cost amounted to \$4,041,585 and \$2,999,411 as of December 31, 2020 and 2019, respectively. There was no contract acquisition costs as of December 31, 2020 and 2019.

Contract balance

The accounts receivable includes both unbilled accounts receivable and billed accounts receivable. The Company records unbilled accounts receivable for revenue that has been recognized in advance of billing the customer, which is common for application development service contracts. The unbilled accounts receivable represents the Company's right to consideration in exchange for the service that the Company has performed to the customer before payment is due and the unbilled account receivable will be reclassified into billed accounts receivable when the Company has the right to invoice. Contract liabilities are presented as customer deposits and deferred revenue on the consolidated balance sheet. Contract liabilities relate to payments received in advance of completion of performance obligations under a contract. Contract liabilities are recognized as revenue upon the completion of performance obligations. As of December 31, 2020 and 2019, the balance of customer deposits amounted to \$573,243 and \$270,793, respectively. As of December 31, 2020 and 2019, the balance of deferred revenue amounted to \$1,095,279 and \$869,396, respectively.

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, when necessary, to reduce deferred tax assets to the amount expected to be realized.

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 period incurred. No significant penalties or interest relating to income taxes have been incurred during the years ended December 31, 2020 and 2019. All of the tax returns of the Company's subsidiary in China remain subject to examination by the tax authorities for five years from the date of filing.

Recently issued accounting pronouncements

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

G. Safe Harbor

This Annual Report contains forward-looking statements that are based on our management’s beliefs and assumptions and on information currently available to us. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “potential,” “continue,” “is/are likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- the timing of the development of future services;
- projections of revenue, earnings, capital structure and other financial items;
- the development of future company-owned branches;
- statements regarding the capabilities of our business operations;
- assumptions underlying statements regarding us or our business;
- statements regarding competition in our market; and
- statements of expected future economic performance.

You should thoroughly read this annual report and the documents that we refer to in this annual report with the understanding that our actual results in the future may be materially different from or worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements. Other sections of this annual report include additional factors which could adversely affect our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in “Item 3. Key Information—D. Risk Factors” and elsewhere in this annual report.

The forward-looking statements made in this annual report relate only to events or information as of the date on which these statements are made in this annual report. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this annual report. You should not rely upon forward-looking statements as predictions of future events.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Below is a list of our directors, senior management and any employees upon whose work we are dependent as of the date of this Annual Report, and a brief account of the business experience of each of them. The business address for our directors and officers is 1st Floor, Building D2, Southern Software Park, Tangjia Bay, Zhuhai, Guangdong 519080, China.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Ban Lor	63	Co-CEO and co-Chairman of the Board
Stewart Lor	58	Co-CEO, CFO, President, and co-Chairman of the Board
Liping Shu	43	Chief Marketing Officer
Tianfei Feng	46	Chief Research and Development Officer
Wei Guan (1) (4)	53	Independent Director
Bo Wu (2)	64	Independent Director
Doreen Mak (3)	38	Independent Director

- (1) Chair of the Audit Committee.
- (2) Chair of the Nominating Committee.
- (3) Chair of the Compensation Committee.
- (4) Audit Committee financial expert.

Ban Lor is a founder of our Company and Powerbridge Zhuhai. He serves as our co-CEO and co-Chairman of the Board. From the inception of the Company to October 2019, Mr. Lor served as our President, CEO and Chairman of the Board. Prior to founding our Company in 1997, Mr. Lor was a founder and served as CEO and Chairman of the Board at Lorons International Corporation, a global trade and manufacturing company from August 1988 to October 1995. Mr. Lor holds a B.S. in Electrical Engineering from State University of New York at Stony Brook and a M.B.A in General Management from New York Institute of Technology. We believe he is qualified to serve on the Board because of the perspective and experience he brings as our CEO as well as his extensive experience managing global trade application and technology service business.

Stewart Lor is a co-founder of our Company and has been serving as our co-CEO, President, and co-Chairman of the Board since October 2019. Mr. Lor has been serving on our board of directors and as our CFO since August 2018. Previously, he served on our board of directors and as our Chief Operating Officer from October 1997 to September 2006. Mr. Lor served as President of Lorons International Corporation from August 1988 to October 1995. He had served various executive positions at Cmark Holdings Ltd. and Fanz Co., Ltd. from November 2006 to September 2017. He holds a B.S. in Biochemistry from State University of New York at Stony Brook. We believe he is qualified to serve on the Board because of the perspective and experience he brings as our cofounder and CFO.

Liping Shu has been working at Zhuhai Powerbridge, the wholly-owned subsidiary of the Company, since April 2004. Mr. Su has been the Chief Marketing Officer of Zhuhai Powerbridge since March 2020 and the Executive Vice President of Zhuhai Powerbridge since March 2017. Before that, he served as the General Manager of Business Department for Zhuhai Powerbridge from October 2006 to March 2017. From April 2004 to October 2006, Mr. Shu worked as the Manager of Marketing Development Department for Zhuhai Powerbridge. Mr. Shu holds a bachelor degree in E-commerce from University of Zhejiang and an Executive Master of Business Administration from University of Hunan.

Tianfei Feng has been serving as our Chief Research & Development Officer since August 2018. Prior to joining us, he served as Vice President of Technology at Digital China Golden Vista and Bangtai United from June 2010 to September 2017, Director of Technology and Development at Ali Health from November 2008 to May 2010, and Chief System Architect at Chinaport from April 2003 to October 2008. Mr. Feng holds a Ph.D. in Aerospace and Astronavigation Engineering from Beihang University.

Wei Guan is an independent director of the Company. Mr. Guan has over twenty years of diverse experience in multiple disciplines, including security brokerage service, investment banking, international trade and software applications. He has held several managerial positions at Huatai Securities, Mando Corporation, Vanke Properties, and Jiujiu Technologies. Mr. Guan holds a Bachelor's Degree in Management from Dongbei University of Finance and Economics.

Bo Wu is an independent director of the Company. Mr. Wu served as Vice President at Capinfo, a provider of “digital and smart city” technology services from September 2008 to September 2017. He served as General Manager at Credit & Risk Management, a provider of consumer and corporate credit and risk information systems from March 2003 to August 2008. Mr. Wu held various management positions at Capinfo from October 2000 to February 2003. He holds a B.E. and M.S. in Optical Engineering from Huazhong University of Science and Technology and a PhD in Optical Instrumentation from a joint Ph.D. program by Institute of Applied Physics at Dalian University of Science and Technology and University of Bonn.

Doreen Mak is an independent director of the Company. Ms. Mak has over 11 years of experience in financial investment and management. From 2010 to date, she serves as the investment manager and senior investment analyst at a privately-owned investment company focusing on investment in the secondary market. From 2006 to 2010, she served as a finance and investment analyst in the aforesaid privately-owned investment company. Ms. Mak holds a bachelor’s degree in Commerce (Accounting and Finance) from the University of Melbourne, Australia.

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 the Fourth Amended and Restated 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 Fourth Amended and Restated 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 of Directors and Executive Officers

Executive Compensation

Summary Compensation Table

The following table sets forth all cash compensation paid by us, as well as certain other compensation paid or accrued, in fiscal 2020 and 2019 to each of the following named executive officers. The total amount was \$0.9 million and \$0.8 million in fiscal 2020 and 2019.

Name/principal position	Year	Salary	Equity Compensation	All Other Compensation	Total Paid
Ban Lor/co-CEO (1)	2019	\$ 201,884	\$ 5,965	\$ -	\$ 207,809
	2020	215,451	8,034		223,485
Stewart Lor/co-CEO and CFO (2)	2019	\$ 154,321	\$ 50,704	\$ -	\$ 205,025
	2020	198,086	68,292		266,378
Xiuhe Jiang/Chief Product Officer (3)	2019	\$ 48,977	\$ 11,930	\$ -	\$ 60,907
	2020	42,606	16,069		58,675
Tianfei Feng/Chief Research and Development Officer (4)	2019	\$ 71,847	\$ 28,335	\$ -	\$ 100,182
	2020	97,472	38,163		135,635
Liping Shu/Chief Marketing Officer (5)	2019	\$ 93,079	\$ 50,704	\$ -	\$ 143,783
	2020	130,564	68,292		198,856
Nanfang Li/Chief Strategy Officer (6)	2019	\$ 49,218	\$ 29,826	\$ -	\$ 79,044
	2020		40,171		40,171

(1) Appointed Chairman, President and CEO effective as of August 2018 and resigned as President as of October 2019.

(2) Appointed CFO effective as of August 2018 and appointed as co-Chairman and co-CEO as of October 2019.

(3) Appointed Chief Product Officer effective as of August 2018. Xiuhe Jiang retired from his position as a Chief Product Officer at the Company on March 2, 2021.

- (4) Appointed Chief Research and Development Officer as of August 2018.
- (5) Appointed Chief Marketing Officer as of March, 2020.
- (6) Appointed as Chief Strategy Officer as of August 2018 and resigned from such position in July 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 notice or 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.

Employment Agreements

Ban Lor Employment Agreement

On August 18, 2018, we entered into an employment agreement with Ben Lor pursuant to which he agreed to serve as our CEO. The agreement provides for an annual base salary of RMB1,800,000 (approximately USD\$263,462) payable in accordance with the Company's ordinary payroll practices. The term of the agreement shall expire on August 17, 2021, which term will automatically extend for additional 12-month periods unless a party to the agreement terminates it upon 3-months' notice or proposes to re-negotiate the terms of the employment with the other party within 3 months prior to the expiration of the applicable term, or unless the employment is terminated earlier pursuant to the terms of the agreement. 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 or by him, the Company shall provide 3-months' advanced notice or payment of 3-months' salary in lieu of the notice. Ban Lor has agreed not to compete with us for 2 years after the termination of his employment; he also executed certain non-solicitation, confidentiality and other covenants customary for agreements of this nature.

Stewart Lor Employment Agreement

On August 18, 2018, we entered into an employment agreement with Stewart Lor pursuant to which he agreed to serve as our CFO. The agreement provides for an annual base salary of RMB1,600,000 (approximately USD\$234,189) payable in accordance with the Company's ordinary payroll practices. The term of the agreement shall expire on August 17, 2021, which term will automatically extend for additional 12-month periods unless a party to the agreement terminates it upon 3-months' notice or proposes to re-negotiate the terms of the employment with the other party within 3 months prior to the expiration of the applicable term, or unless the employment is terminated earlier pursuant to the terms of the agreement. 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 or by him, the Company shall provide 3-months' advanced notice or payment of 3-months' salary in lieu of the notice. Stewart Lor has agreed not to compete with us for 2 years after the termination of his employment; he also executed certain non-solicitation, confidentiality and other covenants customary for agreements of this nature.

Tianfei Feng Employment Agreement

On August 18, 2018, we entered into an employment agreement with Tianfei Feng pursuant to which he agreed to serve as our Chief Research and Development Officer. The agreement provides for an annual base salary of RMB480,000 (approximately USD\$70,257) payable in accordance with the Company's ordinary payroll practices. The term of the agreement shall expire on August 17, 2019, which term will automatically extend for additional 3-month periods unless a party to the agreement terminates it upon 30-days' notice or proposes to re-negotiate the terms of the employment with the other party within 30 days prior to the expiration of the applicable term, or unless the employment is terminated earlier pursuant to the terms of the agreement. 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 or by him, the Company shall provide 30-days' advanced notice or payment of 1-month's salary in lieu of the notice. Tianfei Feng has agreed not to compete with us for 2 years after the termination of his employment; he also executed certain non-solicitation, confidentiality and other covenants customary for agreements of this nature.

Liping Shu Offer Letter

Mr. Liping Shu has received an offer letter from the Company (the "Offer Letter") on March 27, 2020, which sets his annual compensation of US\$76,000 with a target annual bonus equal to 60% of the base salary. The Offer Letter also grants Mr. Shu an option, to be issued under the Company's 2018 Incentive Plan, to purchase an aggregate of 68,000 ordinary shares of the Company at a price no less than the market price of the Company's ordinary shares at issuance, subject to certain vesting schedule, and establishes other terms and conditions governing his service for the Company.

Director Compensation

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 general meetings or separate meetings of any class of shares or of debenture of the Company or otherwise in connection with the discharge of his or her duties as a director. Employee directors are entitled to receive \$4,500 payable quarterly for their services. Non-employee directors are entitled to receive stock option to purchase certain amount of Ordinary Shares under Company's 2018 Stock Option Plan.

2018 Stock Option Plan

We adopted the 2018 Stock Option Plan (the "2018 Plan") on April 4, 2019 (the "Effective Date"), which was further amended by the First Amendment to the 2018 Plan (the "First Amendment", and collectively with the 2018 Plan the "Plan"). The Plan is a stock-based compensation plan that provides for discretionary grants of stock options to key employees, directors and consultants of the Company. The purpose of the 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. Section 3(a) and 6(f) are amended as the following. The total number of Ordinary Shares issuable upon the exercise of all outstanding Options granted under the Plan shall not exceed 20% of the total number of outstanding Ordinary Shares.

On April 4, 2019, the Board of Directors approved several restricted stock options 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 1,050,500 stock options to key employees and directors under the Plan. Stock options 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. Stock options are valid for a period of 10 years from April 4, 2019 to April 5, 2029. As at the grant date of April 4, 2019, the weighted-average fair value per share was \$5.00 and the estimated total fair value of the restricted shares granted was \$5,252,500. No grants were made in fiscal year 2020.

On February 23, 2020, the Board approved to register all the shares issuable under the Company's 2018 Amended Option Plan in a registration statement on a Form S-8, representing 9,155,464 ordinary shares issuable under our Amended 2018 Stock Option Plan. As of the date hereof, the Company has issued certain options to the employees, advisors, and consultants of the Company under Plan to purchase in an aggregate amount of 9,155,464 Ordinary Shares the grants have been made under the plan as of the date hereof. The following is a summary of the Plan and is qualified by the full text of the Plan.

Administration. The 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 Ordinary Shares. The number of Ordinary Shares that may be issued under the Plan is the total number of Ordinary Shares in the capital of the Company issuable upon the exercise of all outstanding Options granted under this Plan shall not at any time exceed 20% of the total number of outstanding Ordinary Shares at the time of issuance, from time to time. If there is a forfeiture or termination without the delivery of Ordinary Shares or of other consideration of any option made under the Plan, the Ordinary Shares underlying such option, or the number of Ordinary Shares otherwise counted against the aggregate number of Ordinary Shares available under the Plan with respect to the option, to the extent of any such forfeiture or termination, shall again be, or shall become, available for granting options under the Plan. The number of Ordinary Shares issuable under the Plan is subject to adjustment, in the event 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. Except as the board of director or the Committee determines, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number or price of Shares subject to an Option. In the event of a spin-off transaction, the board of director or the Committee may in its discretion make such adjustments and take such other action as it deems appropriate with respect to outstanding Options under the Plan.

Eligibility. All persons as the board of directors or the Committee may select from among the employees, directors, and consultants of the Company.

Stock Options. The board of directors or Committee shall determine the provisions, terms, and conditions of each option including, but not limited to, the option vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, shares, cashless settlement, or other consideration) upon settlement of the option, payment contingencies and the exercise price; each option will last for the term stated in the option agreement, provided, however that in the case of an option that is to qualify as an Incentive Share Option as such term is defined in Section 422 of the Code, the term shall not exceed ten (10) years. It is intended that stock options qualify as “performance based compensation” under Section 162(m) of the Code and thus be fully deductible by us for federal income tax purposes, to the extent permitted by law.

Payment for Stock Options and Withholding Taxes. The board of directors or Committee may make one or more of the following methods available for payment of an option, including the exercise price of a stock option, and for payment of the minimum required tax obligation associated with an award: (i) cash; (ii) cheque; (iii) with respect to options, payment through a broker-dealer sale and remittance procedure pursuant to which the optionee (A) shall provide written instructions to a Company designated brokerage firm to effect the immediate sale of some or all of the purchased Ordinary Shares and remit to the Company sufficient funds to cover the aggregate exercise price payable for the purchased Ordinary Shares and (B) shall provide written directives to the Company to deliver the certificates for the purchased Ordinary Shares directly to such brokerage firm in order to complete the sale transaction; (iv) cashless election; or (v) any combination of the foregoing methods of payment.

No Ordinary Shares shall be delivered under the Plan to any optionee or other person until such optionee or other person has made arrangements acceptable to the board of directors or Committee for the satisfaction of any national, provincial or local income and employment tax withholding obligations. Upon exercise of an option the Company shall have the right, but not the obligation (except as required by applicable law), to withhold or collect from optionee an amount sufficient to satisfy such tax obligations. The optionee will be solely responsible for his/her own tax obligations.

Transferability of Option. Options shall be transferable (i) at will and by the laws of succession and distribution; (ii) during the lifetime of the Optionee, to the extent and in the manner authorized by the Administrator; and (iii) upon delivery of a written assignment of the Options duly executed by the Optionee at the principal office of the Company, along with the Options and funds sufficient to pay any transfer taxes payable upon the making of such transfer. The Optionee shall surrender its Options to the Company within seven (7) calendar days of the date on which the Optionee delivers the assignment form to the Company assigning its Options. Upon such surrender and, if required, such payment, the Company shall execute and deliver new Options in the name of the assignee and shall promptly cancel the surrendered Options. Notwithstanding the foregoing, the Optionee may designate one or more beneficiaries of the Optionee's Option in the event of the Optionee's death on a beneficiary designation form provided by the Administrator"

Amendment of Award Agreements; Amendment and Termination of the Plan; Term of the Plan. The board of directors may at any time amend, suspend or terminate the Plan; provided, however, that no such amendment shall be made without the approval of the Company's shareholders to the extent such approval is required by applicable laws, or if such amendment would adversely affect the right of any participant under any agreement in any material way without the written consent of the participant. No option may be granted during any suspension of the Plan or after termination of the Plan. No suspension or termination of the Plan shall adversely affect any rights under options already granted to an optionee. The Plan has become effective on the date of the effectiveness of Company's initial public offering. It shall continue in effect for a term of ten (10) years unless sooner terminated or unless renewed for another period not to exceed ten (10) years pursuant to shareholder approval.

Notwithstanding the foregoing, neither the Plan nor any outstanding option 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. (This prohibition on repricing without shareholder approval does not apply in case of an equitable adjustment to the awards to reflect changes in the capital structure of the company or similar events.)

C. Board Practices

Composition of Board; Risk Oversight

Our board of directors presently consists of four (4) directors. Pursuant to our Fourth Amended and Restated Memorandum and Articles of Association, the number of our board shall not be less than two (2). At any one time, at least majority of the board of directors shall be independent directors. Our shareholders may elect new director either to fill in a vacancy or add additional member to the board via ordinary resolutions and the directors may appoint any new director to fill a vacancy or as a member to the board until the next annual meeting of the Company. The directors have been divided into two classes, being the class I directors (the "Class I Directors") and the class II directors (the "Class II Directors") immediately prior to the consummation of Company's IPO. The number of directors in each class shall be as nearly equal as possible. The Class I Directors shall stand elected for a term expiring at the Company's initial meeting after the adoption of the Fourth Amended and Restated Memorandum and Articles of Association and the Class II Directors shall stand elected for a term expiring at the Company's third annual general meeting following the initial meeting. Directors elected to succeed those Class I Directors whose terms expire shall be elected for a term of office to expire at the first annual general meeting following their election and directors elected to succeed those Class II Directors whose terms expire shall be elected for a term of office to expire at the third annual general meeting following their election. The initial members of Class I Directors are Yuping Ouyang and Bo Wu. The initial members of Class II Directors are Ban Lor and Stewart Lor. A director will be removed from office automatically if, among other things, the director becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors, or becomes of unsound mind or dies. Except for the sibling relationship between Mr. Ben Lor and Mr. Stewart Lor, 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 may meet for the dispatch of business, adjourn and otherwise regulate its meetings as it considers appropriate.

Under the NASDAQ rules, we are required to maintain a board of directors comprised of at least 50% independent directors, and an audit committee of at least three members, comprised solely of independent directors who also meet the requirements of Rule 10A-3 under the Exchange Act. 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. However, the NASDAQ rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. We have utilized the exemption afforded by Nasdaq Listing Rule 5615(a)(3) to follow home country practice in lieu of certain requirements, including (i) the independence requirements for compensation committee and nomination committee as provided in Nasdaq Listing Rule 5605(d) and (e), (ii) the requirement that a majority of the board must be independent as provided in Nasdaq Listing Rule 5615(b)(1), (iii) the requirement to hold annual general meeting as provided in Nasdaq Listing Rule 5620(a), and (iv) the requirement to obtain shareholder approval prior to a plan or other equity compensation arrangement is established or materially amended as provided in Nasdaq Listing Rule 5635(c).

Under our Fourth Amended and Restated Memorandum and Articles of Association, we shall hold an annual general meeting in each year other than the year in which the Fourth Amended and Restated Memorandum and Articles of Association were adopted and shall specify the meeting as such in the notices calling it. The annual general meeting shall be held at such time and place as the board of directors shall appoint.

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 CEO serve on the board as he plays key roles in the risk oversight of the Company. As a smaller reporting company with a small board of directors, we believe it is appropriate to have the involvement and input of all of our directors in risk oversight matters.

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 Yuping Ouyang and Bo Wu 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 is 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.

Currently, our Audit Committee consists of 3 members, Bo Wu, Doreen Mak and Wei Guan, with Wei Guan 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 Yuping Ouyang 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 is 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 3 members, Bo Wu, Wei Guan and Doreen Mak, with Doreen Mak serving as the chair of 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 is 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 3 members, Doreen Mak, Wei Guan and Bo Wu, with Bo Wu 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 Fourth Amended and Restated 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;
- giving to any person the right or option of requiring at a future date that an allotment shall be made to him of any share at par or at such premium as may be agreed;
- exercising the borrowing powers of the company and mortgaging the property of the company;
- giving to any Directors, officers or employees of the Company an interest in any particular business or transaction or participation in the profits thereof or in the general profits of the Company either in addition to or in substitution for a salary or other remuneration; and
- resolving that the Company be deregistered in the Cayman Islands and continued in a named jurisdiction outside the Cayman Islands subject to the provisions of the Companies Law.

Interested Transactions

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

Remuneration and Borrowing

The directors may receive such remuneration as our board of directors may determine from time to time. For the services rendered by the independent director in any capacity the company will a cash fee in the amount of USD\$1,500 per month. 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.

D. Employees

As of the date of this Annual Report, we had a total of 236 full-time employees, of which 106 are in research and development, 39 are in sales and marketing, 52 are in technical and customer services, and 39 are in general administration.

We have standard employment, comprehensive confidentiality and non-compete agreements with our management and standard confidentiality and non-compete terms with all other employees. As required by laws and regulations in China, we participate in various social security plans that are organized by municipal and provincial governments, including pension insurance, medical insurance, unemployment insurance, maternity insurance, job-related injury insurance and housing fund. We are required by PRC laws to make contributions to employee social security plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

We believe that we maintain a good working relationship with our employees, and we have not experienced any labor disputes. None of our employee is represented by a labor union or covered by collective bargaining agreements. We have not experienced any work stoppages.

E. Share Ownership

See Item 7 below.

Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following tables set forth certain information with respect to the beneficial ownership of our Ordinary Shares for:

- each stockholder known by us to be the beneficial owner of more than 5% of our outstanding Ordinary Shares;
- each of our directors;
- each of our named executive officers; and
- all of our directors and executive officers as a group.

We have determined beneficial ownership in accordance with the rules of the SEC. 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 the date of this Annual Report 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 Ordinary 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 Ordinary Shares held by them are located in the United States. Applicable percentage ownership is based on 48,262,216 Ordinary Shares outstanding as of June 30, 2021. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Powerbridge, c/o 1st Floor, Building D2, Southern Software Park, Tangjia Bay, Zhuhai, Guangdong 519080, China.

Name of Beneficial Owner	Beneficial Ownership	
	Ordinary Shares	Percentage
Ban Lor ⁽¹⁾	4,054,119	8.40%
Stewart Lor ⁽²⁾	1,309,383	2.71%
Wei Guan	0	-
Bo Wu	0	-
Liping Shu	*	*
Tianfei Feng	0	-
Doreen Mak	0	0
All directors and executive officers as a group	5,363,502	11.11%
Hybridge Holdings Ltd. ⁽¹⁾	3,486,053	7.22%
5% or greater beneficial owners as a group	3,486,053	7.22%

* Less than 1%.

- (1) Consists of (i) 3,138,169 Ordinary Shares held by Hybridge Holding Ltd., a British Virgin Islands company (“Hybridge”) which is 100% owned by Ban Lor; (ii) 173,984 Ordinary Shares held by Sunbrook One Ltd., a British Virgin Islands company (“Sunbrook”) which Ban Lor, together with his spouse, Mrs. Lor, owns and controls 87.85% equity interest and voting power; (iii) 180,569 Ordinary Shares held by Bitlakes Holdings Ltd., a British Virgin Islands company (“Bitlakes”) which Ban Lor owns and controls 67.46% equity interest and voting power; and (iv) 213,513 Ordinary Shares held by Foxbit Holdings Ltd., a British Virgin Islands company (“Foxbit”) which Ban Lor owns and controls 61.61% equity interest and voting power. The principal office address for Hybridge, Sunbrook, Bitlakes and Foxbit is Sertus Incorporation (BVI) Limited, Sertus Chambers, P.O. Box 905, Quastsky Building, Road Town, Tortola, British Virgin Islands.
- (2) Includes 1,309,383 Ordinary Shares held by Hogstream International Ltd., a British Virgin Islands company wholly-owned by Stewart Lor (“Hogstream”). Mr. Lor maintains sole voting control over the shares held by Hogstream, the principal office address of which is at Sertus Incorporation (BVI) Limited, Sertus Chambers, P.O. Box 905, Quastsky Building, Road Town, Tortola, British Virgin Islands.

As of the date of this Annual Report, there were 43 holders of record entered in our share register. 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 the beginning of the Company’s preceding three financial years up to the date hereof, 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, 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.

Prepaid expense –related parties:

The Company had consulting fee prepayment of \$121,144 to Guangzhou Powerbridge Blockchain Co., Ltd. as of December 31, 2019, which the Company has significant influence over with. In 2020, both parties negotiated to terminate the consulting service. The balance of \$129,254 as of December 31, 2020 was reclassified to due from related party and fully allowed in 2020.

For the year ended December 31, 2019, the Company incurred consulting fee prepayment \$685,167 to Hengqin Baisheng Investment, GP, which was a non-controlling shareholder of Powerbridge Ningbo. The balance of \$622,222 as of December 31, 2020 was reclassified to due from related party in 2020.

Due from related party.

As of December 31, 2020, the Company had \$129,254 due from Guangzhou Powerbridge Blockchain Co., Ltd., which was fully allowed in 2020. As of December 31, 2020, the Company had \$622,222 due from Hengqin Baisheng Investment, GP.

As of December 31, 2020 and 2019, the Company advanced \$30,651 and \$370,000 to Mr. Zongbo Jiang, the legal representative of Guangzhou Hongqiao Blockchain Co., Ltd, which the Company has significant influence over with. The balance was collected in 2020.

Due to related party.

Due to related party as of December 31, 2020 amounted to \$71,020, which included \$8,855 unpaid expenses to Ling Lor, wife of CEO and director of the Company and \$62,165 unpaid expenses to Hong Yu, shareholder of Chongqing Power.

Due to related party as of December 31, 2019 amounted to \$6,538, which represents unpaid expenses to Ling Lor, wife of CEO and director of the Company.

Short term bank loan.

On April 25, 2019, Powerbridge Zhuhai entered into a loan agreement with Bank of Communication to obtain a loan of \$1,149,095 for a term of one year and at a floating rate based on prime borrowing rate in PRC. The bank loan was unsecured and guaranteed by Mr. Ban Lor, the Chairman and CEO of the Company, and his family member. The loan was fully repaid upon maturity.

On March 16, 2020, Powerbridge Zhuhai entered into a loan agreement with Bank of Communication to obtain a loan of \$1,532,532 for a term of half year and at a fixed annual interest rate of 5.003%. The bank loan was unsecured and guaranteed by Mr. Ban Lor, the Chairman and CEO of the Company, and his family member. The loan was fully repaid October 8, 2020.

On November 5, 2020, Powerbridge Zhuhai entered into a loan agreement with Bank of Communication to obtain a loan of \$1,532,567 for a term of one year and at a fixed annual interest rate of 4.5675%. The bank loan was unsecured and guaranteed by a third party.

On February 1, 2019, Powerbridge Zhuhai entered into a loan agreement with Bank of China to obtain a loan of \$430,923 for a term of one year and at a fixed annual interest rate of 4.6%. The bank loan was guaranteed by Mr. Ban Lor and secured by a restricted cash deposit of \$172,369 as of December 31, 2019. The loan was fully repaid upon maturity.

On January 9, 2020, Powerbridge Zhuhai entered into a loan agreement with Bank of China to obtain a loan of \$766,284 for a term of one year and at a fixed annual interest rate of 4.45%. The bank loan was guaranteed by Mr. Ban Lor and secured by a restricted cash deposit of \$114,943 as of December 31, 2020. The loan was fully repaid on December 25, 2020.

On March 4, 2020, Powerbridge Zhuhai entered into a loan agreement with Bank of China to obtain a loan of \$459,770 for a term of one year and at a fixed annual interest rate of 4.55%. The bank loan was guaranteed by Mr. Ban Lor. The loan was fully repaid upon maturity.

On December 14, 2020, Powerbridge Zhuhai entered into a loan agreement with Bank of China to obtain a loan of \$306,514 for a term of one year and at a fixed annual interest rate of 4.55%. The bank loan was guaranteed by Mr. Ban Lor.

On January 2, 2020, Powerbridge Zhuhai entered into a loan agreement with Guangfa Bank to obtain a loan of \$2,298,851 for a term of one year and at a fixed annual interest rate of 4.6%. The bank loan was guaranteed by Mr. Ban Lor and the company's account receivable of some programs was pledged to secure the loan. The loan was fully repaid upon maturity.

C. Interests of Experts and Counsel

Not applicable.

Item 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See Item 18 for our audited consolidated financial statements.

Legal Proceedings

From time to time, we are subject to legal proceedings, investigations and claims incidental to the conduct of our business. We are not currently a party to any legal proceeding or investigation which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations.

Dividend Policy

The holders of our Ordinary 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 subsidiaries and other holdings and investments. In addition, our operating subsidiaries 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 Ordinary 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. Offering and Listing Details.

The Registration Statement became effective on March 28, 2019. Our Ordinary Shares are currently listed on NASDAQ Capital Market under the symbol PBTS.

B. Plan of Distribution

Not applicable.

C. Markets

Our Ordinary Shares are currently listed on NASDAQ Capital Market under the symbol PBTS.

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. Amended and Restated Memorandum and Articles of Association

Our Fourth Amended and Restated Memorandum and Articles of Association were filed as Exhibit 10.1 of Form 6-K filed on November 6, 2020 and are hereby incorporated by reference into this Annual Report. The following description of our memorandum and articles of association, as amended and restated from time to time, are summaries and do not purport to be complete. Reference is made to our Fourth Amended and Restated Memorandum and Articles of Association, effective on September 30, 2020 (respectively, the “Memorandum” and the “Articles”). We were incorporated as an exempted company with limited liability under the Companies Law (2018 Revision) of the Cayman Islands, (“Cayman Companies Law”), on July 27, 2018. A Cayman Islands exempted company:

- is a company that conducts its business mainly outside the Cayman Islands;
- is prohibited from trading in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the exempted company carried on outside the Cayman Islands (and for this purpose can effect and conclude contracts in the Cayman Islands and exercise in the Cayman Islands all of its powers necessary for the carrying on of its business outside the Cayman Islands);
- does not have to hold an annual general meeting;
- does not have to make its register of members open to inspection by shareholders of that company;
- may obtain an undertaking against the imposition of any future taxation;
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

All of our issued and outstanding Ordinary Shares are fully paid and non-assessable. Our Ordinary Shares are issued in registered form, and are issued when registered in our register of members. Unless and until the directors resolve to issue share certificates, no share certificate shall be issued, and the records of the shareholdings of each shareholder shall be in uncertified book entry form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their Ordinary Shares. We may not issue shares or warrants to bearer.

As of the date of this report, the authorized share capital of the Company is US \$500,000 divided into 300,000,000 shares of US \$0.00166667 par value each. Subject to the provisions of the Cayman Companies Law and the provisions, if any, of the Articles, and any directions given by any ordinary resolution and the rights attaching to any class of existing shares, the directors may issue, allot, grant options over or otherwise dispose of shares (including any fractions of Shares) and other securities of our company at such times, to such persons, for such consideration and on such terms as the directors may determine. Such authority could be exercised by the directors to allot shares which carry rights and privileges that are preferential to the rights attaching to ordinary shares provided that if such operates to vary the rights of holders of ordinary shares then the sanction of a special resolution of the affected class is required. No share may be issued at a discount except in accordance with the provisions of the Cayman Companies Law. The directors may refuse to accept any application for shares, and may accept any application in whole or in part, for any reason or for no reason.

Ordinary Shares

General. The unissued shares of the Company shall be at the disposal of the Board, under its absolute discretion, at such times and for such consideration and upon such terms and conditions and for any reason, without limitation, but so that no shares shall be issued at a discount to par value. Except as otherwise expressly provided in the resolution or resolutions providing for the establishment of any class or series of preferred shares, no vote of the holders shall be a prerequisite to the issuance of any shares of any class or series of the preferred shares authorized by and complying with the conditions of the Memorandum and Articles of Association. The board may issue options, warrants, convertible securities or other similar nature securities.

Dividends. The holders of our Ordinary Shares are entitled to such dividends as may be declared by our board of directors. Our Third Amended and Restated Memorandum and Articles of Association provide that our board of directors may declare and pay dividends out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed, or out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Law.

Voting Rights. In respect of all matters subject to a shareholders' vote, at any general meeting on a show of hands every Shareholder present in person (or being a corporation, is present by a duly authorized representative), or by proxy shall have one vote and on a poll every Shareholder present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorized representative shall have one vote for every share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. 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 one-tenth of such of the paid-up share capital of our company that carries the right to vote at a general meeting, forthwith proceed to convene an extraordinary general meeting. 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 Ordinary 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 Ordinary Shares cast at a meeting. A special resolution will be required for important matters such as making changes to our Third Amended and Restated Memorandum and Articles of Association.

Transfer of Ordinary Shares. Subject to the restrictions set out below, any of our shareholders may transfer all or any of his or her Ordinary Shares by an instrument of transfer in the usual or common form prescribed by the NASDAQ Stock Market (the "Designated Stock Exchange") or in 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 Ordinary Shares only where such share is not a fully paid up share (and being transferred to a person of whom it does not approve), or any share issued under any share incentive scheme for employees or pursuant to any other agreement, contract or other such arrangement. If the Board refuses to register a transfer of any share, it shall, within three months after the date on which the transfer was lodged with the Company, send to each of the transferor and transferee notice of the refusal. The registration of transfers of shares or of any class of shares may, subject to compliance with any notice requirement of the Designated Stock Exchange, be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as the Board may determine.

Inspection of Books and Records. Holders of our Ordinary Shares have no general right under our Third Amended and Restated Memorandum and 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 Ordinary 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, conversion rights, voting rights; and
- the 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 Ordinary Shares.

Anti-Takeover Provisions. Some provisions of our Third Amended and Restated 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.

Differences in Corporate Law

The Companies Law is modeled after that of English law but does not follow many recent English law statutory enactments. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of some of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the State of Delaware.

Mergers and Similar Arrangements. The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, a “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company.

In order to effect a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by a special resolution of the shareholders of each constituent company, and such other authorization, if any, as may be specified in such constituent company’s articles of association.

The plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger and consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares if they follow the required procedures under the Companies Law subject to certain exceptions. The fair value of the shares will be determined by the Cayman Islands court if it cannot be agreed among the parties. Court approval is not required for a merger or consolidation effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands.

While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such that an intelligent and honest man of that class acting in respect of his interest would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

When a take-over offer is made and accepted by holders of not less than 90% of the shares within four months, the offer, or may, within a two-month period conversing on the expiration of such four months period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits. In principle, we will normally be the proper plaintiff to sue for a wrong done to us as a company and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, there are exceptions to the foregoing principle, including when:

- a company acts or proposes to act illegally or ultra vires and is therefore incapable of ratification by the shareholders;
- the act complained of, although not ultra vires, could only be duly effected if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a "fraud on the minority."

Indemnification of Directors and Executive Officers and Limitation of Liability. The Companies Law does not limit the extent to which a company's 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 Third Amended and Restated 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.

Directors' Fiduciary Duties. Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director acts in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation. As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he or she owes the following duties to the company: a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his or her position as director (unless the company permits him or her to do so) and a duty not to put himself or herself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, courts are moving towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Shareholder Action by Written Consent. Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law provides that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held. Our Third Amended and Restated Memorandum and Articles of Association provides that anything which may be done by resolution of the Company in general meeting or by resolution of a meeting of any class of the shareholders may be done without a meeting by written resolution in accordance with such Third Amended and Restated Memorandum and Articles of Association. A written resolution is passed when it is signed by (or in the case of a shareholder that is a corporation, on behalf of) all the shareholders, or all the shareholders of the relevant class thereof, entitled to vote thereon, or in the case of an ordinary resolution, the requisite majority, and may be signed in as many counterparts as may be necessary.

Shareholder Proposals. Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings. The Companies Law provides shareholders with only limited rights to requisition a general meeting and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in articles of association. Our Third Amended and Restated Memorandum and Articles of Association allow our shareholders holding not less than 10% of the share capital in issue to requisition a shareholder's meeting. Other than this right to requisition a shareholders' meeting, a shareholder may give notice to the Company of business proposed to be brought before an annual general meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings.

Cumulative Voting. Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the Companies Law but our Third Amended and Restated Memorandum and Articles of Association do not provide for cumulative voting.

Removal of Directors. Under the Delaware General Corporation Law, a director of a corporation with a may be removed with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our Third Amended and Restated Memorandum and Articles of Association, directors may be removed by way of a special resolution of our shareholders at any time before the expiration of his or her period of office.

Transactions with Interested Shareholders. The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an “interested shareholder” for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target’s outstanding voting share within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target’s board of directors. The Companies Law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding up. Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation’s outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under the Companies Law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Law and our Third Amended and Restated Memorandum and Articles of Association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

Variation of Rights of Shares. Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under the Companies Law and our Third Amended and Restated Memorandum and Articles of Association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

Amendment of Governing Documents. Under the Delaware General Corporation Law, a corporation’s governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by the Companies Law, our Third Amended and Restated Memorandum and Articles of Association may only be amended with a special resolution of our shareholders.

Rights of Non-resident or Foreign Shareholders. There are no limitations imposed by our Third Amended and Restated Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our Third Amended and Restated Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company,” “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions,” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

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

E. Taxation

The following summary of the material Cayman Islands, PRC and U.S. federal income tax consequences of an investment in our Ordinary 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 Ordinary 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 rate of 25% 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.

We do not believe that Powerbridge meets all of the conditions required for PRC resident enterprise. The Company is a company incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. For the same reasons, we believe our other entities outside of China are not PRC resident enterprises either. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” There can be no assurance that the PRC government will ultimately take a view that is consistent with ours.

However, if the PRC tax authorities determine that Powerbridge is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises. Such 10% tax rate could be reduced by applicable tax treaties or similar arrangements between China and the jurisdiction of our shareholders. For example, for shareholders eligible for the benefits of the tax treaty between China and Hong Kong, the tax rate is reduced to 5% for dividends if relevant conditions are met. In addition, non-resident enterprise shareholders may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ordinary shares, if such income is treated as sourced from within the PRC.

It is unclear whether our non-PRC individual shareholders would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether non-PRC shareholders of the Company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that the Company is treated as a PRC resident enterprise.

Provided that our Cayman Islands holding company, Powerbridge, is not deemed to be a PRC resident enterprise, our shareholders who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares. However, under Circular 7, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, 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 such 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 would be obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under Circular 7, and we may be required to expend valuable resources to comply with Bulletin 37, or to establish that we should not be taxed under Circular 7 and Bulletin 37.

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.

Material U.S. Tax Considerations

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.” The U.S. federal income tax consequences applicable to Non-U.S. Holders is described below under the heading “Tax Consequences to Non-U.S. Holders of Ordinary Shares.”

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 Ordinary Shares

Taxation of Distributions Paid on Ordinary 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 Ordinary 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 Ordinary Shares and, to the extent in excess of such basis, will be treated as gain from the sale or exchange of such Ordinary 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, including individual U.S. Holders, dividends on our shares will be taxed at the lower long-term capital gains rate applicable to qualified dividend income (see “— Taxation on the Disposition of Ordinary Shares” below), provided that (1) our Ordinary 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 Ordinary Shares, including the effects of any change in law after the date of this Annual Report.

If PRC taxes apply to dividends paid to a U.S. Holder on our Ordinary 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 Ordinary Shares

Upon a sale or other taxable disposition of our Ordinary Shares, and subject to the PFIC rules discussed below, a U.S. Holder will recognize capital gain or loss in an amount equal to the difference between the amount realized in U.S. dollars and the U.S. Holder’s adjusted tax basis in the Ordinary 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 Ordinary 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 Ordinary 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. We must make a separate determination each year as to whether we are a PFIC. As such, our PFIC status, 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. Depending on the amount of cash we raise in the IPO, together with any other assets held for the production of passive income, it is possible that, for our 2019 taxable year or for any subsequent taxable year, more than 50% of our assets may be assets held for the production of passive income. We will make this determination following the end of any particular tax 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) Ordinary 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 Ordinary 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 Ordinary Shares during the three preceding taxable years of such U.S. Holder or, if shorter, such U.S. Holder's holding period for the Ordinary 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 Ordinary 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 Ordinary 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 Ordinary 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 Ordinary 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 Ordinary 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 Ordinary 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 Ordinary 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 Ordinary 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 Ordinary Shares at the end of its taxable year over the adjusted basis in its Ordinary 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 Ordinary Shares over the fair market value of its Ordinary 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 Ordinary 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 Ordinary 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 Ordinary 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 Ordinary Shares should consult their own tax advisors concerning the application of the PFIC rules to our Ordinary Shares under their particular circumstances.

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

Dividends paid to a Non-U.S. Holder in respect to its Ordinary 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 Ordinary 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 Ordinary Shares within the United States to a non-corporate U.S. Holder and to the proceeds from sales and other dispositions of our Ordinary 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 24%, generally will apply to dividends paid on our Ordinary 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.

Individual U.S. Holders may be required to report ownership of our Ordinary Shares and certain related information on their individual federal income tax returns in certain circumstances. Generally, this reporting requirement will apply if (1) the Ordinary Shares are held in an account of the individual U.S. Holder maintained with a "foreign financial institution" or (2) the Ordinary Shares are not held in an account maintained with a "financial institution," as such terms are defined in the Code. The reporting obligation will not apply to an individual, however, unless the total aggregate value of the individual's foreign financial assets exceeds US\$50,000 during a taxable year. For avoidance of doubt, this reporting requirement should not apply to Ordinary Shares held in an account with a U.S. brokerage firm. Failure to comply with this reporting requirement, if it applies, will result in substantial penalties. In certain circumstances, additional tax and other reporting requirements may apply, and U.S. Holders of our Ordinary Shares are advised to consult with their own tax advisors concerning all such reporting requirements.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We have previously filed the Registration Statement with the SEC.

Documents concerning us that are referred to in this document may be inspected at c/o 1st Floor, Building D2, Southern Software Park, Tangjia Bay, Zhuhai, Guangdong 519080, China. In addition, we file annual reports and other information with the Securities and Exchange Commission. We file annual reports on Form 20-F and submit other information under cover of Form 6-K. As a foreign private issuer, we are exempt from the proxy requirements of Section 14 of the Exchange Act and our officers, directors and principal shareholders are exempt from the insider short-swing disclosure and profit recovery rules of Section 16 of the Exchange Act. Annual reports and other information we file with the Commission may be inspected at the public reference facilities maintained by the Commission at Room 1024, 100 F. Street, N.E., Washington, D.C. 20549, and copies of all or any part thereof may be obtained from such offices upon payment of the prescribed fees. You may call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms and you can request copies of the documents upon payment of a duplicating fee, by writing to the Commission. In addition, the Commission maintains a web site that contains reports and other information regarding registrants (including us) that file electronically with the Commission which can be assessed at <http://www.sec.gov>.

I. Subsidiary Information

For a listing of our subsidiaries, see “Item 4. Information on the Company — A. History and Development of the Company.”

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

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

Foreign Currency Risk

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

Our functional currency is the RMB, and our financial statements are presented in U.S. dollars. The RMB depreciated by 1.3% in fiscal year 2019 and appreciated by 6.3% in fiscal year 2020.. 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

With the exception of Items 12.D.3 and 12.D.4, this Item 12 is not applicable for annual reports on Form 20-F. As to Items 12.D.3 and 12.D.4, this Item 12 is not applicable, as the Company does not have any American Depositary Shares.

Part II

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

See “Item 10. Additional Information” for a description of the rights of securities holders, which remain unchanged

Use of Proceeds

The following “Use of Proceeds” information relates to the Registration Statement, in relation to our initial public offering of 2,012,500 Ordinary Shares (including the full exercise of the over-allotment option by the underwriters to purchase an additional 262,500 Ordinary Shares on May 10, 2019). The Ordinary Shares were sold at an offering price of \$5.00 per share, generating gross proceeds of approximately \$10.06 million, and net proceeds of approximately \$8.0 million. The registration statement relating to the IPO also covered the underwriters’ common stock purchase warrants and the Ordinary Shares issuable upon the exercise thereof in the total amount of 122,500 Ordinary Shares.

We have earmarked and have been using the proceeds of the initial public offering as follows: approximately \$4.0 million for research and development; approximately \$1.0 million for sales and marketing effort; and approximately \$3.0 million for working capital and general corporate purposes. We used a portion of the proceeds from the IPO to accelerate our R&D in order to expedite our service offerings to drive product adoption. We believe our domain knowledge, product expertise and customer relationships will enable us to capture significant market share with *Powerbridge BaaS Services* when we start our commercialization of such services. *Powerbridge BaaS Services* is currently available to limited customers with designated use case and is still under development for better use case.

Item 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, which is defined in Rules 13a-15(e) of the Exchange Act, as of December 31, 2020. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures as of December 31, 2020 were not effective at the reasonable assurance level due to the material weakness described below.

In connection with the audit of our financial statements for the years ended December 31, 2020, 2019 and 2018, we and our independent registered public accounting firms identified material weakness in our internal control over financial reporting, as defined in the standards established by the Public Company Accounting Oversight Board of the United States. The material weakness identified consisted of (i) a lack of accounting staff and resources with appropriate knowledge of U.S. GAAP and SEC reporting and compliance requirements; (ii) a lack of sufficient documented financial closing policies and procedures, specifically those related to period-end expenses cut-off and accruals; (iii) inadequate controls with respect to the maintenance of sufficient documentation for, and the evaluation of the accounting implications of, significant and non-routine payment transactions; (iv) a lack of sufficient documented financial closing policies and procedures, specifically those related to period-end expenses cut-off and accruals; as defined in the standards established by the Public Company Accounting Oversight Board of the United States.

We have already taken some steps and have continued to implement measures to remediate the material weakness identified, including but not limited to providing trainings to staff, changing to a new and well-established accounting system, and continue to monitor the internal control over financial reporting. However, we cannot assure you that we will not identify additional material weaknesses or significant deficiencies in the future. See “Item 3. Key Information—D. Risk Factors— If we fail to establish and maintain proper internal financial reporting controls, our ability to produce accurate financial statements or comply with applicable regulations could be impaired.”

Notwithstanding there are material weaknesses identified as described above, we believe that our consolidated financial statements contained in this annual report on Form 20-F fairly present our financial position, results of operations and cash flows for the years covered thereby in all material respects.

(b) Management’s Annual Report on Internal Control over Financial Reporting Attestation Report of the Registered Public Accounting Firm

Our management made an annual assessment regarding our internal control over financial reporting. The material weaknesses identified by us and our independent registered public accounting firm related to (i) a lack of accounting staff and resources with appropriate knowledge of U.S. GAAP and SEC reporting and compliance requirements; (ii) a lack of sufficient documented financial closing policies and procedures, specifically those related to period-end expenses cut-off and accruals; (iii) inadequate controls with respect to the maintenance of sufficient documentation for, and the evaluation of the accounting implications of, significant and non-routine payment transactions. (iv) a lack of sufficient documented financial closing policies and procedures, specifically those related to period-end expenses cut-off and accruals. Neither we nor our independent registered public accounting firm undertook a comprehensive assessment of our internal control under the Sarbanes-Oxley Act for purposes of identifying and reporting any weakness in our internal control over financial reporting. Had we performed a formal assessment of our internal control over financial reporting or had our independent registered public accounting firm performed an audit of our internal control over financial reporting, additional control deficiencies may have been identified.

Remediation of Material Weaknesses

To remediate our identified material weaknesses, we intend to adopt several measures to improve our internal control over financial reporting, including (i) hiring more qualified accounting personnel, including a financial controller, with relevant U.S. GAAP and SEC reporting experience and qualifications to strengthen the financial reporting function and setting up a financial and system control framework; (ii) implementing regular and continuous U.S. GAAP accounting and financial reporting training programs for our accounting and financial reporting personnel; (iii) setting up an internal audit function as well as engaging an external consulting firm to assist us with assessment of Sarbanes-Oxley compliance requirements and improvement of overall internal controls; (iv) preparing comprehensive accounting policies, manuals and closing procedures to improve the quality and accuracy of our period-end financial closing process; (v) setting up and maintaining a control process for the accounting implication assessment of all significant payment transactions, particularly those that are non-routine; (vi) setting up and maintaining a control process for maintaining all supporting documentation regarding non-routine transactions; (vii) updating the approval requirements for non-routine transactions to ensure that they match our transaction approval policies in place on our other accounts; and (viii) partnering with third party service providers and a custodian bank to assist with borrower bank account management.

We believe that the actions we are taking, as listed above, will help remedy the material weaknesses referred to above, and help strengthen our general internal controls and procedures over financial reporting. However, the process of designing and implementing an effective financial reporting system represents a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a financial reporting system that is adequate to satisfy our reporting obligations. While we have developed a remediation plan to address these material weaknesses, this remediation plan or any additional plan we plan to implement may be insufficient to address our material weaknesses and additional material weaknesses may be discovered in the future. We plan to continue to address and remediate additional control deficiencies we may identify during our evaluation process in 2021. If we fail to implement and maintain an effective system of internal controls or fail to remediate the material weaknesses in our internal control over financial reporting that have been identified, we may be unable to accurately report our results of operations or prevent fraud or fail to meet our reporting obligations, and investor confidence and the market price of our ADSs may be materially and adversely affected.”

(c) Attestation Report on Internal Control over Financial Reporting of the Registered Public Accounting Firm

This annual report on Form 20-F does not include an attestation report on Internal Control over Financial Reporting of our independent registered public accounting firm because we qualified as an “emerging growth company” as defined under the JOBS Act as of December 31, 2020.

(d) Changes in Internal Control over Financial Reporting

Other than those disclosed above, there were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F 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 Yuping Ouyang 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: www.powerbridge.com.

Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table represents the approximate aggregate fees for services rendered by Onestop Assurance PAC, B F Borgers CPA PC, and Friedman LLP for the periods indicated:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Audit Fees		
- Onestop Assurance PAC	\$ 220,000	\$ -
- B F Borgers CPA PC	150,000	
- Friedman LLP	-	190,000
All Other Fees	-	-
Total Fees	<u>\$ 370,000</u>	<u>\$ 190,000</u>

“Audit-related fees” are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit and are not reported under audit fees. These fees primarily include accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and other accounting issues that occur from time to time.

“Tax fees” include fees for professional services rendered by our independent registered public accounting firm for tax compliance and tax advice on actual or contemplated transactions.

“Other fees” include fees for services rendered by our independent registered public accounting firm with respect to government incentives and other matters.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by our independent auditor including audit services, audit-related services, tax services and other services.

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

As described under Item 16G, we have relied on and intend to continue relying on home country practice, our audit committee consists of two members (both of whom are independent directors) instead of three members as required under NASDAQ listing rules. Other than above, we have not asked for, nor have we been granted, an exemption from the applicable listing standards for our Audit Committee.

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

Not applicable.

Item 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Dismissal of Friedman LLP

On September 30, 2020 we dismissed Friedman LLP (“Friedman”) as our independent registered public accounting firm, effective immediately. On October 2, 2020, BF Borgers CPA PC (“BFB”) has been engaged as our independent registered public accounting firm. The audit committee of our board of directors (the “Audit Committee”) approved the dismissal of Friedman and the engagement of BFB as the independent registered public accounting firm. Friedman served as the independent registered public accounting firm for us since 2018. The auditor’s report of Friedman on the Company’s consolidated financial statements as of and for the fiscal years ended December 31, 2019 and 2018 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During the two most recent fiscal years and through the subsequent interim period preceding the dismissal of Friedman, there were no (i) “disagreements” (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K) between the Company and Friedman on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Friedman would have caused Friedman to make reference to the subject matter thereof in its reports for such fiscal years and interim period, or (ii) “reportable events” as that term is described in Item 304(a)(1)(v) of Regulation S-K.

We furnished a copy of this disclosure to Friedman and have requested that Friedman furnish us with a letter addressed to the SEC stating whether such firm agrees with the above statements or, if not, stating the respects in which it does not agree. We have received the requested letter from Friedman, and a copy of the letter is filed as Exhibit 16.1 to this Form 20-F.

We file a report on Form 6-K on October 6, 2020 (the “October 2020 6-K”) to disclose the dismissal. We furnished a copy of the October 2020 6-K to Friedman which contained the verbatim statement as the immediate precedent paragraph and requested that Friedman furnish us with a letter addressed to the SEC stating whether it agrees with such statements as the immediate precedent paragraph or, if not, stating the respects in which it does not agree. We received the requested letter from Friedman, and a copy of the letter was filed as Exhibit 99.1 to the October 2020 6-K.

Dismissal of BF Borgers CPA PC

On April 19, 2021, we dismissed BFB as our independent registered public accounting firm, effective immediately. The Company engaged BFB during the period from October 2, 2020 to April 19, 2021 (the “Engagement Period”). During the Engagement Period, BFB did not issue an audit reports on the Company’s consolidated financial statements.

During the two most recent fiscal years and through the subsequent interim period preceding the dismissal of BFB, there were no (i) “disagreements” (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K) between the Company and BFB on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of BFB would have caused BFB to make reference to the subject matter thereof in its reports for such fiscal years and interim period, or (ii) “reportable events” as that term is described in Item 304(a)(1)(v) of Regulation S-K.

Item 16G. CORPORATE GOVERNANCE

As a Cayman Islands exempted company listed on the Nasdaq Stock Market, we are subject to the Nasdaq listing standards. However, the Nasdaq Stock Market Rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. We have utilized the exemption afforded by Nasdaq Listing Rule 5615(a)(3) to follow home country practice in lieu of certain requirements, including (i) the independence requirements for compensation committee and nomination committee as provided in Nasdaq Listing Rule 5605(d) and (e), (ii) the requirement that a majority of the board must be independent as provided in Nasdaq Listing Rule 5615(b)(1), (iii) the requirement to hold annual general meeting as provided in Nasdaq Listing Rule 5620(a), and (iv) the requirement to obtain shareholder approval prior to a plan or other equity compensation arrangement is established or materially amended as provided in Nasdaq Listing Rule 5635(c). Our shareholders may be afforded less protection than they would otherwise enjoy under the Nasdaq listing standards applicable to U.S. domestic issuers given our reliance on the home country practice exception.

See “Item 3. Key Information-D. Risk Factors-Risks Related to Our Corporate Structure-As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with such corporate governance listing standards.”

See “Item 6. Directors, Senior Management and Employees” for more information.

Item 16H. MINE SAFETY DISCLOSURE

Not applicable.

Part III

Item 17. FINANCIAL STATEMENTS

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

Item 18. FINANCIAL STATEMENTS

The consolidated financial statements of Powerbridge Technologies Co., Ltd., and its subsidiaries are included at the end of this annual report.

Item 19. EXHIBITS

EXHIBIT INDEX

Exhibit	Exhibit title
1.1	Form of Underwriting Agreement⁽¹⁾
3.1	Fourth Amended and Restated Memorandum and Articles of Association⁽⁵⁾
4.1	Specimen Ordinary Share Certificate⁽⁴⁾
4.2	Form of Underwriter Warrant⁽⁴⁾
10.1	2018 Stock Option Plan
10.2	Form of Employment Agreement⁽²⁾
10.3	Unofficial English Translation of Technical Development (Commission) Contract between Zhuhai Powerbridge Technology Co., Ltd and Wuhan New Port Management Committee dated as of July 21, 2017⁽²⁾
10.4	Unofficial English Translation of Contract for the Public Tender Procurement Project for the Information Platform of Comprehensive Bonded Logistics Industry Construction Management Office of Wuhan Airport Economic Development Zone between Zhuhai Powerbridge Technology Co., Ltd and Comprehensive Bonded Logistics Industry Construction Management Office of Wuhan Airport Economic Development Zone dated as of December 13, 2016⁽²⁾
10.5	Unofficial English Translation of Government Procurement Contract between Zhuhai Powerbridge Technology Co., Ltd and Chenzhou High-tech Investment Holding Co., Ltd dated as of September 22, 2017⁽²⁾
10.6	Unofficial English Translation of Wuhan New Port Airport Comprehensive Bonded Zone (Yangluogang Park) Information Software and Integration Contract between Zhuhai Powerbridge Technology Co., Ltd and Wuhan New Port Yangluo Bonded Park Development Management Co., Ltd dated as of November 23, 2016⁽²⁾

- 10.7 [Unofficial English Translation of Technical Development \(Commission\) Contract between Zhuhai Powerbridge Technology Co., Ltd and Guangxi Nanning Dangdai Fengyun Investment Management Co., Ltd dated as of July 27, 2016^{\(2\)}](#)
- 10.8 [Unofficial English Translation of Government Procurement Contract among Department of Commerce of Guangxi Zhuang Autonomous Region, Zhuhai Powerbridge Technology Co., Ltd, and Beijing Xinchengtong Digital Technology Co., Ltd dated as of November 15, 2016^{\(2\)}](#)
- 10.9 [Unofficial English Translation of Government Procurement Contract between Department of Commerce of Guangxi Zhuang Autonomous Region and Zhuhai Powerbridge Technology Co., Ltd dated as of November 28, 2016^{\(2\)}](#)
- 10.10 [Unofficial English Translation of Government Procurement Contract of Guangxi Zhuang Autonomous Region between Department of Commerce of Guangxi Zhuang Autonomous Region and Zhuhai Powerbridge Technology Co., Ltd dated as of September 25, 2015^{\(2\)}](#)
- 10.11 [Unofficial English Translation of Purchasing Contract between Zhuhai Powerbridge Technology Co., Ltd and Cyberspace Great Wall Internet System Application \(Wuhan\) Co., Ltd dated as of August 16, 2017^{\(2\)}](#)
- 10.12 [Unofficial English Translation of Purchasing Contract between Zhuhai Powerbridge Technology Co., Ltd and Cyberspace Great Wall Internet System Application Co., Ltd dated as of December 18, 2016^{\(2\)}](#)
- 10.13 [Unofficial English Translation of Purchasing Contract between Zhuhai Powerbridge Technology Co., Ltd and Guangdong Aotong Technology Co., Ltd dated as of May 7, 2015^{\(2\)}](#)
- 10.14 [Unofficial English Translation of Purchasing Contract between Zhuhai Powerbridge Technology Co., Ltd and Hunan Jintong Technology Co., Ltd dated as of June 11, 2014^{\(2\)}](#)
- 10.15 [Independent Director Offer Letter between Powerbridge Technologies Co., Ltd. and Yuping Ouyang dated as of October 23, 2018^{\(2\)}](#)
- 10.16 [Independent Director Offer Letter between Powerbridge Technologies Co., Ltd. and Guoguan Wang dated as of October 22, 2018^{\(2\)}](#)
- 10.17 [Independent Director Offer Letter between Powerbridge Technologies Co., Ltd. and Bo Wu dated as of October 22, 2018^{\(2\)}](#)
- 10.18 [Director Offer Letter between Powerbridge Technologies Co., Ltd. and Ban Lor dated as of October 23, 2018^{\(2\)}](#)
- 10.19 [Director Offer Letter between Powerbridge Technologies Co., Ltd. and Stewart Lor dated as of October 23, 2018^{\(2\)}](#)
- 10.20 [Employment Agreement between Powerbridge Technologies Co., Ltd. and Ban Lor dated as of August 18, 2018^{\(2\)}](#)
- 10.21 [Employment Agreement between Powerbridge Technologies Co., Ltd. and Stewart Lor dated as of August 18, 2018^{\(2\)}](#)
- 10.22 [Employment Agreement between Powerbridge Technologies Co., Ltd. and Xuehe Jiang dated as of August 18, 2018^{\(2\)}](#)
- 10.23 [Employment Agreement between Powerbridge Technologies Co., Ltd. and Tianfei Feng dated as of August 18, 2018^{\(2\)}](#)

10.24	<u>Employment Agreement between Powerbridge Technologies Co., Ltd. and Nanfang Li dated as of August 18, 2018⁽²⁾</u>
10.25	<u>Unofficial English Translation of Technology Development Agreement between Zhuhai Powerbridge Technologies Co., Ltd. and Project Department of Guiyang Gaimao Railway Port Construction (Phase I project) of No.3 Engineering Company of China Railway No.8 Engineering Group Co., Ltd. dated as of September 1, 2019⁽⁶⁾</u>
10.26	<u>Unofficial English Translation of Sales Agreement between Zhuhai Powerbridge Technologies Co., Ltd. and Wuhan Borui Int Technology Co., LTD. dated as of June 28, 2019⁽⁶⁾</u>
10.27	<u>Form of Securities Purchase Agreement⁽⁷⁾</u>
10.28	<u>Form of Securities Purchase Agreement⁽⁸⁾</u>
10.29	<u>Form of Unsecured Convertible Promissory Note⁽⁸⁾</u>
10.30	<u>Unofficial English Translation of the Leasing Agreement dated September 25, 2020 by and between Shenzhen Honghao Internet Technology Co. Ltd. and Shenzhen Kezhi Technology Co., Ltd.⁽⁹⁾</u>
10.31	<u>Unofficial English Translation of the Supplemental Agreement to Leasing Agreement dated November 20, 2020 by and between Shenzhen Honghao Internet Technology Co. Ltd. and Shenzhen Kezhi Technology Co., Ltd.⁽¹⁰⁾</u>
10.32	<u>Sales Agreement, dated February 23, 2021, by and between Powerbridge Technologies Co., Ltd. and A.G.P./Alliance Global Partners⁽¹¹⁾</u>
10.33	<u>Securities Purchase Agreement by and between Powerbridge Technologies Co., Ltd. and Uptown Capital, LLC dated as of January 8, 2021⁽¹²⁾</u>
10.34	<u>Convertible Promissory Note dated January 8, 2021⁽¹²⁾</u>
10.35	<u>Securities Purchase Agreement dated April 9, 2021 by and between the Company and the Investor⁽¹³⁾</u>
10.36	<u>Form of Convertible Note⁽¹³⁾</u>
10.37	<u>Form of Warrant⁽¹³⁾</u>
10.38	<u>Unofficial English Translation of the Supplemental Agreement to the Leasing Agreement dated March 30, 2021 by and between Shenzhen Honghao Internet Technology Co. Ltd. and Shenzhen Kezhi Technology Co., Ltd.</u>
10.39	<u>Unofficial English Translation of the Void Confirmation for the Supplemental Agreement by and between Shenzhen Honghao Internet Technology Co. Ltd. and Shenzhen Kezhi Technology Co., Ltd.</u>
10.40	<u>Unofficial English Translation of the Second Supplemental Agreement to the Leasing Agreement dated May 12, 2021 by and between Shenzhen Honghao Internet Technology Co. Ltd. and Shenzhen Kezhi Technology Co., Ltd.</u>
10.41	<u>Unofficial English Translation of the Third Supplemental Agreement to the Leasing Agreement dated May 16, 2021 by and between Shenzhen Honghao Internet Technology Co. Ltd. and Shenzhen Kezhi Technology Co., Ltd.</u>
12.1	<u>Certification of the Chief Executive Officer (Principal Executive Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.</u>
12.2	<u>Certification of the Chief Financial Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.</u>

13.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
14.1	Code of Conduct and Ethics⁽²⁾
15.1	Consent of Audit Onestop Assurance PAC
16.1	Letter From BF Borgers CPA PC regarding Item 16F (change in Certifying Accountant), dated May 17, 2021
21.1	List of Subsidiaries of the Registrant
24.1	Power of Attorney (included on signature page)⁽¹⁾
99.1	Charter of the Audit Committee⁽²⁾
99.2	Charter of the Compensation Committee⁽²⁾
99.3	Charter of the Nominating and Corporate Governance Committee⁽²⁾
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; incorporated by reference to the identically named exhibit filed with the Registration Statement on Form F-1 (File No. 333-229128) filed with the Securities and Exchange Commission on March 21, 2019
- (2) Previously filed; incorporated by reference to the identically named exhibit filed with the Registration Statement on Form F-1 (File No. 333-229128) filed with the Securities and Exchange Commission on January 4, 2019
- (3) Previously filed; incorporated by reference to the identically named exhibit filed with the Registration Statement on Form F-1 (File No. 333-229128) filed with the Securities and Exchange Commission on February 19, 2019.
- (4) Previously filed; incorporated by reference to the identically named exhibit filed with the Registration Statement on Form F-1 (File No. 333-229128) filed with the Securities and Exchange Commission on March 12, 2019.
- (5) Previously filed; incorporated by reference to the identically named exhibit filed with the Form 6-K filed with the Securities and Exchange Commission on November 6, 2020.
- (6) Previously filed; incorporated by reference to the identically named exhibit filed with the Form 20-F filed with the Securities and Exchange Commission on June 24, 2020.
- (7) Previously filed; incorporated by reference to the identically named exhibit filed with the Form 6-K filed with the Securities and Exchange Commission on August 28, 2020.
- (8) Previously filed; incorporated by reference to the identically named exhibit filed with the Form 6-K filed with the Securities and Exchange Commission on September 8, 2020.
- (9) Previously filed; incorporated by reference to the identically named exhibit filed with the Form 6-K filed with the Securities and Exchange Commission on October 6, 2020.
- (10) Previously filed; incorporated by reference to the identically named exhibit filed with the Form 6-K filed with the Securities and Exchange Commission on November 25, 2020.
- (11) Previously filed; incorporated by reference to Exhibit 1.01 of the Company's Registration Statement on Form F-3 filed with the SEC on February 23, 2021.
- (12) Previously filed; incorporated by reference to the identically named exhibit filed with the Form 6-K filed with the Securities and Exchange Commission on February 23, 2021.
- (13) Previously filed; incorporated by reference to the identically named exhibit filed with the Form 6-K filed with the Securities and Exchange Commission on April 9, 2021.

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.

Powerbridge Technologies Co., Ltd.

By: /s/ Ban Lor

Name: **Ban Lor**

Title: **Co-Chief Executive Officer
(Principal Executive Officer)**

Dated: July 13, 2021

POWERBRIDGE TECHNOLOGIES CO., LTD.

CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Powerbridge Technologies Co., Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Powerbridge Technologies Co., Ltd. (collectively, the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for the years ended December 31, 2020, 2019 and 2018, and the related notes to the consolidated financial statements and schedule (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years ended December 31, 2020, 2019 and 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 audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Audit OneStop Assurance PAC

We have served as the Company’s auditor since 2021.

Singapore

July 12, 2021

POWERBRIDGE TECHNOLOGIES CO., LTD.
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalent	\$ 8,389,704	\$ 5,772,055
Restricted cash	-	172,369
Notes receivable	-	215,462
Accounts receivable, net	14,314,985	11,241,076
Prepaid expense – related parties	-	806,311
Due from related parties	652,873	370,000
Loans to third parties	5,365,517	740,000
Contract costs	4,041,585	2,999,411
Prepayments, deposits and other current assets, net	1,999,281	551,013
Total Current Assets	34,763,945	22,867,697
Property and equipment, net	7,184,101	6,564,640
Prepayments, deposits and other assets, net	385,607	759,397
Loan receivable – long term	63,434,483	-
Deferred tax assets	415,131	309,111
Total Assets	\$ 106,183,267	\$ 30,500,845
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Bank loans	\$ 4,597,701	\$ 1,580,018
Accounts payable	24,282,921	19,773,556
Customer deposits	573,243	270,793
Deferred revenue	1,095,279	869,396
Salaries and benefits payable	2,170,651	1,219,584
Due to related party	71,020	6,538
Taxes payable	698,935	869,913
Total Current Liabilities	33,489,750	24,589,798
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Ordinary Shares, 0.00166667 par value; 300,000,000 shares authorized, 45,777,318 and 8,967,748 shares issued and outstanding as of December 31, 2020 and 2019	76,296	14,946
Additional Paid-in Capital	100,149,397	15,878,438
Accumulated deficit	(28,234,492)	(9,980,835)
Accumulated other comprehensive (loss) income	814,343	(1,487)
Total Powerbridge Technologies Co., Ltd.'s Shareholders' Equity	72,805,544	5,911,062
Non-controlling interest	(112,027)	(15)
Total Equity	72,693,517	5,911,047
Total Liabilities and Equity	\$ 106,183,267	\$ 30,500,845

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

POWERBRIDGE TECHNOLOGIES CO., LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

	For the Years Ended		
	December 31,		
	2020	2019	2018
REVENUES:			
Application development services	\$ 21,985,214	\$ 15,720,676	\$ 20,037,861
Consulting and technical support services	3,797,354	3,307,662	2,390,948
Subscription services	881,443	1,066,720	723,458
Total revenues	<u>26,664,011</u>	<u>20,095,058</u>	<u>23,152,267</u>
COST OF REVENUES			
Cost of application development services	15,320,446	12,553,556	14,140,094
Cost of consulting and technical support services	1,803,239	1,339,133	1,093,631
Cost of subscription services	147,631	137,658	84,936
Total cost of revenues	<u>17,271,316</u>	<u>14,030,347</u>	<u>15,318,661</u>
GROSS PROFIT	<u>9,392,695</u>	<u>6,064,711</u>	<u>7,833,606</u>
OPERATING EXPENSES			
Sales and marketing	2,675,028	3,562,425	2,144,588
General and administrative	5,559,426	5,945,576	2,316,058
Provision for doubtful accounts	191,148	3,293,600	368,125
Research and development	2,780,944	2,163,658	1,992,228
Share based compensation	1,473,976	2,351,890	-
Total operating expenses	<u>12,680,522</u>	<u>17,317,149</u>	<u>6,820,999</u>
OPERATING (LOSS) INCOME	<u>(3,287,827)</u>	<u>(11,252,438)</u>	<u>1,012,607</u>
OTHER INCOME (EXPENSE)			
Other income	106,026	252,109	584,209
Change in fair value of convertible debt	(15,258,333)	-	-
Total other expense	<u>(15,152,307)</u>	<u>252,109</u>	<u>584,209</u>
(LOSS) INCOME BEFORE INCOME TAXES	<u>(18,440,134)</u>	<u>(11,000,329)</u>	<u>1,596,816</u>
INCOME TAX (BENEFITS) EXPENSES	<u>(80,532)</u>	<u>(213,347)</u>	<u>43,190</u>
NET (LOSS) INCOME	<u>(18,359,602)</u>	<u>(10,786,982)</u>	<u>1,553,626</u>
Less: (loss) income attributable to non-controlling interests	(105,945)	(145)	7,336
NET (LOSS) INCOME ATTRIBUTABLE TO POWERBRIDGE	<u>(18,253,657)</u>	<u>(10,786,837)</u>	<u>1,546,290</u>
OTHER COMPREHENSIVE (LOSS) INCOME			
Foreign currency translation adjustment	809,672	(101,857)	(339,238)
COMPREHENSIVE (LOSS) INCOME	<u>(17,549,930)</u>	<u>(10,888,839)</u>	<u>1,214,388</u>
Less: comprehensive (loss) income attributable to non-controlling interest	(112,103)	(144)	6,928
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO POWERBRIDGE	<u>\$ (17,437,827)</u>	<u>\$ (10,888,695)</u>	<u>\$ 1,207,460</u>
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES *			
Basic and diluted	<u>16,150,065</u>	<u>8,388,481</u>	<u>6,905,248</u>
(LOSS) EARNINGS PER SHARE			
Basic and diluted	<u>\$ (1.13)</u>	<u>\$ (1.29)</u>	<u>\$ 0.22</u>

* Shares and per share data are presented on a retroactive basis to reflect the nominal share issuance and share split on August 18, 2018 and February 10, 2019.

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

POWERBRIDGE TECHNOLOGIES CO., LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Shares*	Amount	Share subscription receivable	Additional Paid-in Capital	Retained Earnings (accumulated deficit)	Non- controlling interest	Accumulated other comprehensive income (loss)	Total equity
Balance, December 31, 2017	6,905,248	11,509	(11,509)	5,519,507	(740,288)	(6,928)	439,201	5,211,492
Net income for the year	-	-	-	-	1,546,290	7,336	-	1,553,626
Foreign currency translation adjustment	-	-	-	-	-	(408)	(338,830)	(339,238)
Balance, December 31, 2018	6,905,248	\$ 11,509	\$ (11,509)	\$ 5,519,507	\$ 806,002	\$ -	\$ 100,371	\$ 6,425,880
Issuance of shares –initial public offering, net of issuance costs	2,012,500	3,354	11,509	8,007,124	-	-	-	8,021,987
Capital contribution by non-controlling shareholder	-	-	-	-	-	129	-	129
Restricted shares issued for services	50,000	83	-	18,347	-	-	-	18,430
Options granted for services	-	-	-	2,333,460	-	-	-	2,333,460
Net loss for the year	-	-	-	-	(10,786,837)	(145)	-	(10,786,982)
Foreign currency translation adjustment	-	-	-	-	-	1	(101,858)	(101,857)
Balance, December 31, 2019	8,967,748	\$ 14,946	\$ -	\$ 15,878,438	\$ (9,980,835)	\$ (15)	\$ (1,487)	\$ 5,911,047
Issuance of shares for private placement	8,800,000	14,667	-	17,585,333	-	-	-	17,600,000
Conversion of convertible note	27,777,776	46,297	-	65,212,036	-	-	-	65,258,333
Restricted shares issued for services	231,794	386	-	486,961	-	-	-	487,347
Options granted	-	-	-	986,629	-	-	-	986,629
Capital contribution by non-controlling shareholder	-	-	-	-	-	91	-	91
Net loss for the year	-	-	-	-	(18,253,657)	(105,945)	-	(18,359,602)
Foreign currency translation adjustment	-	-	-	-	-	(6,158)	815,830	809,672
Balance, December 31, 2020	45,777,318	\$ 76,296	\$ -	\$ 100,149,397	\$ (28,234,492)	\$ (112,027)	\$ 814,343	\$ 72,693,517

* Shares and per share data are presented on a retroactive basis to reflect the nominal share issuance and share split on August 18, 2018 and February 10, 2019.

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

POWERBRIDGE TECHNOLOGIES CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended
December 31,

	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (18,359,602)	\$ (10,786,982)	\$ 1,553,626
Adjustments to reconcile net income from operations to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,451,572	952,204	643,265
Provision (recovery) for doubtful accounts	191,148	3,293,600	368,125
Share based compensation	1,473,976	2,351,890	-
Loss from disposal of property and equipment	1,548	18,916	1,994
Deferred tax (benefit) provision	(80,641)	(224,511)	(69,898)
Change in fair value of convertible debt	15,258,333	-	-
Changes in assets and liabilities:			
Notes receivable	217,259	91,197	(322,288)
Accounts receivable	(2,004,618)	714,690	(3,515,181)
Contract costs	(795,174)	(3,022,727)	-
Prepayments, deposits and other assets	(1,196,470)	616,243	(766,322)
Accounts payable	3,010,706	3,772,182	4,949,114
Notes payable	-	(465,598)	486,669
Salaries and benefits payable	860,110	395,781	(217,606)
Prepaid expense – related parties	813,038	(812,579)	-
Taxes payable	(216,624)	13,160	(331,381)
Deferred revenue	158,474	(312,305)	451,325
Customer deposits	268,706	144,245	(301,147)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	1,051,741	(3,260,594)	2,930,295
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loans to third parties	(64,281,291)	(692,230)	844,554
Purchases of property and equipment	(1,623,312)	(2,901,891)	(2,162,385)
Proceeds from disposal of property and equipment	70	-	-
NET CASH USED IN INVESTING ACTIVITIES	(65,904,533)	(3,594,121)	(1,317,831)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from bank loans	6,517,739	1,592,300	1,588,742
Repayments of bank loans	(3,765,757)	(1,519,955)	(226,963)
Proceeds from Initial Public Offering	-	10,062,500	-
Payment of Initial Public Offering costs	-	(2,040,513)	-
Proceeds from private placement	17,600,000	-	-
Proceeds from issuance of convertible note	50,000,000	-	-
Payments to related parties	(308,284)	(370,000)	(763,288)
Proceeds from related parties	-	159,944	-
Capital contribution by non-controlling shareholder	91	129	-
NET CASH PROVIDE BY (USED IN) FINANCING ACTIVITIES	70,043,789	7,884,405	598,491
EFFECT OF EXCHANGE RATE CHANGES	(2,745,717)	(103,426)	(249,345)
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	2,445,280	926,264	1,961,610
CASH AND RESTRICTED CASH - beginning of year	5,944,424	5,018,160	3,056,550
CASH AND RESTRICTED CASH - end of year	\$ 8,389,704	\$ 5,944,424	\$ 5,018,160
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for:			
Interest	\$ 203,289	\$ 123,278	\$ 19,385
Income taxes	\$ 15,706	\$ 107,074	\$ 296,487
NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES			
Reclassification of deferred offering costs to additional paid in capital	-	400,640	-
Warrants issued to placement agents in connection with the Company's Initial Public Offering	-	356,200	-
RECONCILIATION TO AMOUNTS ON CONSOLIDATED BALANCE SHEETS:			
Cash	\$ 8,389,704	\$ 5,772,055	\$ 4,348,635
Restricted cash	-	172,369	669,525
Total cash and restricted cash	\$ 8,389,704	\$ 5,944,424	\$ 5,018,160

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Nature of business and organization

Powerbridge Technologies Co., Ltd. (“Powerbridge” or the “Company”), is a company that was established under the laws of the Cayman Islands on July 27, 2018 as a holding company. The Company, through its subsidiaries (collectively the “Company”), is a provider of software application and technology services to corporate and government customers engaged in global trade. Mr. Ban Lor, the Company’s Chairman of the Board and Chief Executive Officer (“CEO”), together with his brother, Mr. Stewart Lor, the Company’s Chief Financial Officer (“CFO”) are the ultimate Controlling Shareholders of the Company.

Initial Public Offering

On April 4, 2019, the Company consummated its initial public offering (“IPO”) of 2,012,500 Ordinary Shares at a price of \$5.00 per shares including the exercise in full of the underwriters’ over-allotment option of 262,500 ordinary shares at IPO price of \$5.00 per share. The gross proceeds from the IPO was \$10,062,500 and the net proceeds was \$8,021,987. As a result of the IPO, the Ordinary Shares now trade on the Nasdaq Capital Market under the symbol “PBTS.”

COVID-19

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. COVID-19 has spread rapidly to many parts of the PRC and other parts of the world in the first quarter of 2020, which has caused significant volatility in the PRC and international markets. The ongoing COVID-19 pandemic has resulted in a reduction in economic activity by adversely affecting production, creating supply chain and market disruption. Substantially most of our revenues and our workforce are concentrated in China. Consequently, the Company has experienced delayed customer payments and rescheduled customer orders. Since the COVID-19 pandemic has been gradually contained in China, our revenue and gross margin for the year ended December 31, 2020 has not been adversely affected. However, any potential impact to the Company’s results will depend on, to a large extent, future developments and new information that may emerge regarding the duration and severity of the COVID-19 and the actions taken by government authorities and other entities to contain the COVID-19 or treat its impact, almost all of which are beyond the Company’s control.

Reorganization

A reorganization of the Company’s legal structure was completed on August 27, 2018. The reorganization involved the incorporation of Powerbridge, a Cayman Islands holding company, and its wholly owned subsidiaries, Powerbridge Technologies Co., Limited (“Powerbridge HK”), a holding company incorporated on July 27, 2018 under the laws of Hong Kong; and the transfer of all equity ownership of Zhuhai Powerbridge Technology Co., Ltd. (“Powerbridge Zhuhai”) to Powerbridge HK from the former shareholders of Powerbridge Zhuhai through an investment holding company. In consideration of the transfer, the Company issued 11,508,747 shares of the Company with par value 0.001 per share to the former shareholders of Powerbridge Zhuhai. On February 10, 2019, the board of directors approved a reverse stock split of the Company’s authorized number of Ordinary Shares at a ratio of 1-0.6. After the reverse stock split, the Company’s authorized number of Ordinary Shares was 30,000,000 shares with par value of \$0.00166667 per share and 6,905,248 shares were issued and outstanding immediately after the reverse stock split. The Company has retroactively adjusted all shares and per share data for all the periods presented.

Prior to the reorganization, Powerbridge Zhuhai’s equity interests were held by the former shareholders through an investment holding company, of which the Controlling Shareholders owned 84.9% of equity interest of Powerbridge Zhuhai. Powerbridge Zhuhai was incorporated on October 30, 1997 in Zhuhai, Guangdong province under the laws of the People’s Republic of China (the “PRC” or “China”). Powerbridge Zhuhai is an operating subsidiary that provides global trade software application and technology services to corporate and government customers located in the PRC. Beijing Powerbridge Technology Co., Ltd. (“Powerbridge Beijing”), a company conducting engineering and IT research and development activities, was incorporated on September 28, 2017 in Beijing under the laws of PRC, with Powerbridge Zhuhai owning 55% and Mr. Tianfei Feng owning 45% of equity interest. Since inception, Powerbridge Zhuhai and Mr. Tianfei Feng have only made nominal investments in Powerbridge Beijing and no substantial business operations have occurred; as a result, Powerbridge Zhuhai and Mr. Tianfei Feng agreed to deregister the entity. Mr. Tianfei Feng later became the Company’s Chief Research and Development Officer and the technology research and development activities originally conducted in Powerbridge Beijing are now conducted through the Beijing branch of Powerbridge Zhuhai. Powerbridge Beijing was deregistered on October 25, 2018.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Nature of business and organization (continued)

Reorganization - continued

On August 7, 2018, the former shareholders transferred their 100% ownership interest in Powerbridge Zhuhai to Powerbridge HK, which is 100% owned by Powerbridge. After the reorganization, Powerbridge owns 100% equity interests of Powerbridge HK and Powerbridge Zhuhai. All shareholders have the same ownership interest in Powerbridge as in Powerbridge Zhuhai prior to the reorganization.

Since the Company and its subsidiaries are effectively controlled by the same group of the shareholders before and after the reorganization, they are considered under common control. 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 as of the beginning of the first period presented in the consolidated financial statements.

For the year ended December 31, 2020, the details of the Company's principal subsidiaries are as follows:

Major subsidiaries	Percentage of Ownership	Date of Incorporation	Place of Incorporation	Major Operation
Powerbridge Technologies Co., Ltd. (“Powerbridge HK”)	100%	July 27, 2018	Hong Kong, PRC	Investment holding
Hongding Technology Co., Ltd	100%	July 28, 2020	Hong Kong, PRC	Investment holding
Zhuhai Powerbridge Technologies Co., Ltd. (“Powerbridge Zhuhai”)	100%	October 30, 1997	the PRC	software application and technology services
Shenzhen Hongding Interconnect Technology Co., Ltd	100%	October 21, 2020	the PRC	software application and technology services
Shantou Hongrui Information Tehcnology Co., Ltd. (“Shantou Hongrui”)*	38%	On August 19, 2019	the PRC	software application and technology services
Ningbo Powerbridge Pet Product Cross-border E-Commerce Service Co., Ltd. (“Ningbo Powerbridge”)	60%	September 29, 2019	the PRC	E-commerce
Shenzhen Honghao Internet Technology Co., Ltd (“Honghao”)	100%	July 28, 2020	the PRC	software application and technology services
Wuhan Honggang Tehcnology Co., Ltd (“Honggang”)	60%	June 21, 2019	the PRC	software application and technology services
Chongqing Powerbridge Zhixin Technology Co., Ltd* (“Zhixin”)	45%	September 2, 2019	the PRC	software application and technology services

* Certain third-party shareholders of Shantou Hongrui and Zhixin signed consents with the Company for the year ended December 31, 2020, which stated that the Company has the power and control to direct the activities that most significantly impact Shantou Hongrui and Zhixin and they unconditionally vote by consensus with the Company in all the board decisions. As such, the Company consolidates the financial results of Shantou Hongrui and Zhixin based on the voting power.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities Exchange Commission (“SEC”).

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All intercompany transactions and balances are eliminated upon consolidation. All significant intercompany transactions and balances between the Company and its subsidiaries are eliminated upon consolidation.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; or has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of directors.

Non-controlling interest represents the portion of the net assets of a subsidiaries attributable to interests that are not owned by the Company. The non-controlling interest is presented in the consolidated balance sheets, separately from equity attributable to the shareholders of the Company. Non-controlling interest’s operating result is presented on the face of the consolidated statements of income and comprehensive income as an allocation of the total income for the year between non-controlling shareholders and the shareholders of the Company.

Liquidity

For the year ended December 31, 2020, the Company had working capital of \$1.3 million and incurred a net loss of \$18.4 million. For fiscal 2020, the Company had operation cash flow of \$1.1 million. The Company has historically funded its working capital needs primarily from public offering, operations, bank loans, advance payments from customers and shareholders. The working capital requirements are affected by the efficiency of operations, the numerical volume and dollar value of revenue contracts, the progress or execution on customer contracts, and the timing of accounts receivable collections. The COVID-19 pandemic created significant economic uncertainty and volatility in the credit and capital markets since December 2019. Many customers have delayed their payments to the Company, which caused the significant increase in the Company’s aged accounts receivable balance over one year in fiscal 2019. In early 2020, Chinese government took strict and efficient measures to control and eliminate the spreading of COVID-19 pandemic and many of our customers started to reopen business and bring operation to normal level in the second half of 2020. After evaluating the age of the balance, the customer’s payment history, current credit-worthiness, and current economic trends, the Company reduced the provision for doubtful accounts for fiscal 2020.

In assessing its liquidity, the Company monitors and analyzes its cash on hand, its ability to generate sufficient revenue sources in the future and its operating and capital expenditure commitments. As of December 31, 2020, the Company had cash of approximately \$8.4 million. To support its working capital, the Company entered into several securities purchase agreement in 2021. On January 8, 2021, the Company entered into a securities purchase agreement with Uptown Capital, LLC, pursuant to which the Company issued an unsecured promissory note on in the original principal amount of \$1,650,000, convertible into ordinary shares, par value \$0.00166667 per share, of the Company, for \$1,500,000 in gross proceeds. On February 23, 2021, the Company entered into a Sales Agreement with A.G.P./Alliance Global Partners, as sales agent, pursuant to which the Company may offer and sell up to \$30,000,000 of its ordinary shares, par value \$0.00166667 per share. On April 9, 2021, the Company entered into a securities purchase agreement with YA II PN, LTD., pursuant to which the Company sells convertible notes in the principal amount of US\$7,000,000 and a warrant to purchase 571,429 Ordinary Shares, for gross proceeds of approximately US\$6,790,000. The Company believes that its cash on hand and financing cash flows will be sufficient to fund its operations over at least the next 12 months from the date of this report. However, the Company may need additional cash resources in the future if the Company experiences changed business conditions or other developments, and may also need additional cash resources in the future if the Company wishes to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If it is determined that the cash requirements exceed the Company’s amounts of cash on hand, the Company may seek to issue debt or equity securities or obtain a credit facility.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods presented. Significant accounting estimates reflected in the Company’s consolidated financial statements include but not limited to the useful lives of property and equipment and capitalized development cost, impairment of long-lived assets, valuation of accounts receivables, loans to third parties, revenue recognition and realization of deferred tax assets and uncertain tax positions. Actual results could differ from these estimates.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of significant accounting policies (continued)

Foreign currency translation

The functional currencies of the Company are the local currency of the county in which the subsidiaries operates. The Company's financial statements are reported using U.S. Dollars. The results of operations and the consolidated statements of cash flows denominated in foreign currencies are translated at the average rates of exchange during the reporting period. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange in effect at that date. The equity denominated in the functional currencies is translated at the historical rates of exchange at the time of capital contributions. Because cash flows are translated based on the average translation rates, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets. Translation adjustments arising from the use of different exchange rates from period to period are included as a separate component of accumulated other comprehensive income (loss) included in consolidated statements of changes in equity. Gains and losses from foreign currency transactions are included in the consolidated statement of operations and comprehensive income (loss).

Fair value measurement

ASC 825-10 requires certain disclosures regarding the fair value of financial instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted market prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable and inputs derived from or corroborated by observable market data.
- Level 3 — inputs to the valuation methodology are unobservable.

Unless otherwise disclosed, the fair value of the Company's financial instruments including cash, notes and accounts receivable, due from related parties, prepayments, deposits and other current assets, notes and accounts payable, customer deposits, salaries and benefits payables, due to related party and taxes payable approximates their recorded values due to their short-term maturities. The fair value of the long-term prepayments, deposits and other assets and loans to third parties approximate their carrying amounts because the deposits were paid in cash.

The Company elected the fair value option to account for its convertible loan. The Company engaged an independent valuation firm to perform the valuation. The fair value of the convertible loans is calculated using the binomial tree model. The convertible loans are classified as level 3 instruments as the valuation was determined based on unobservable inputs which are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. Significant estimates used in developing the fair value of the convertible loans include time to maturity, risk-free interest rate, straight debt discount rate, probability to convert and expected timing of conversion. Refer to Note 9 for additional information.

As the inputs used in developing the fair value for level 3 instruments are unobservable, and require significant management estimate, a change in these inputs could result in a significant change in the fair value measurement.

The following is a reconciliation of the beginning and ending balances for convertible loans measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2020:

	2020
Opening balance	\$ -
Issuance of convertible loan	50,000,000
Loss on change in fair value of convertible loan	15,258,333
Conversion of convertible loan	(65,258,333)
Total	\$ -

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of significant accounting policies (continued)

Cash and cash equivalent

Cash and cash equivalent comprise cash at banks and on hand, which includes deposits with original maturities of three months or less with commercial banks in PRC. As of December 31, 2020 and 2019, cash balances were \$8,389,704 and \$5,772,055, respectively.

Restricted cash

Restricted cash mainly represents security deposits as required by certain customers on the Company's projects. The deposits in restricted bank accounts cannot be withdrawn until the Company completes the related projects. Restricted cash is classified as either current or non-current based on when the funds will be released in accordance with the terms of the respective agreements. As of December 31, 2020 and 2019, restricted cash consists of cash equivalents of \$nil and \$172,369 used as collateral to secure bank borrowings (Note 8). The Company is required to keep certain amounts on deposit that are subject to withdrawal restrictions. Upon the maturity of the bank borrowings, the Company is required to deposit the remainder to the escrow account to settle the bank borrowings. The bank borrowings are generally short term in nature due to their short maturity period of three months to one year; thus, the related restricted cash is classified as a current asset.

Accounts receivable, net

Accounts receivable, net, is stated at the original invoiced amount net of write-offs and allowance for doubtful accounts. The Company reviews the accounts receivable on a periodic basis and makes allowances when there is doubt as to the collectability of individual balances. Past-due balances over 90 days are reviewed individually for collectability. In evaluating the collectability of individual accounts receivable balances, the Company considers several factors, including the age of the balance, the customer's payment history, current credit-worthiness, and current economic trends. Accounts receivable balances are written off after all collection efforts have been exhausted. Typically, the Company includes unbilled receivables in accounts receivable for contracts on which revenue has been recognized, but for which the customer has not yet been billed. Unbilled receivables, substantially all of which are expected to be billed within one year are stated at their estimated realizable value and consist of costs and fees billable on contract completion or the occurrence of contractual payment phase.

Notes receivable

Notes receivable represents guaranteed bank drafts that are non-interest bearing and due within six months. Such bank drafts have been arranged by certain customers with the related financial institutions to settle their purchases from the Company. The carrying amount of notes receivable approximates fair value.

Prepayments, deposits and other assets, net

Prepayment, deposit and other assets, net, primarily consists of advances to suppliers for purchasing goods or services that have not been received or provided; security deposits made to our customers; advances to employees and loan receivables from business partners. Prepayment, deposit and other assets are classified as either current or non-current based on the terms of the respective agreements. These advances are unsecured and are reviewed periodically to determine whether their carrying value has become impaired.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of significant accounting policies (continued)

Property and equipment, net

Property and equipment, net, mainly comprise furniture and furniture, vehicles, computer and equipment are stated at cost less accumulated depreciation and impairment. Property and equipment are depreciated over the estimated useful lives of the assets on a straight-line basis, after considering the estimated residual value.

The estimated useful lives are as follows:

	Useful Life
Office equipment, fixtures and furniture	3-10 years
Automobiles	5-8 years
Capitalized development costs and software acquired	5-10 years
Computer equipment	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 the 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 income and comprehensive income.

Capitalized development costs

The Company follows the provisions of Accounting Standards Codification (“ASC”) 350-40, “Internal Use Software.” ASC 350-40 provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use. The Company expenses all costs incurred during the preliminary project stage of its development, and capitalizes costs incurred during the application development stage. Costs incurred relating to upgrades and enhancements to the application are capitalized if it is determined that these upgrades or enhancements add additional functionality to the application. The capitalized development cost is amortized on a straight-line basis over the estimated useful life, which is generally five years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Impairment for long-lived assets

Long-lived assets, including property, equipment, furniture and fixtures and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not 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 assessed discounted cash flow amount. For the years ended December 31, 2020, 2019 and 2018, the Company recognized nil impairment for the long-lived assets.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of significant accounting policies (continued)

Revenue recognition

The Company adopted ASC Topic 606 Revenue from Contracts with Customers (“ASC 606”) on January 1, 2019 using the modified retrospective approach. Revenues for the year ended December 31, 2019 were presented under ASC 606, and revenues for the years ended December 31, 2018 were not adjusted and continue to be presented under ASC Topic 605, Revenue Recognition. There is no adjustment to the opening balance of retained earnings at January 1, 2019 since there was no change to the timing and pattern of revenue recognition upon adoption of ASC 606. Under ASC 606, revenue is recognized when control of promised goods or services is transferred to the Company’s customers in an amount of consideration to which an entity expects to be entitled to in exchange for those goods or services and is recorded net of value-added tax (“VAT”). To achieve that core principle, the Group applies the following steps:

- Step 1: Identify the contract (s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Company derives its revenues from three sources: (1) revenue from application development services, (2) revenue from consulting and technical support services, and (3) revenue from subscription services. All of the Company’s contracts with customer do not contain cancelable and refund-type provisions.

(1) Revenue from application development service

The Company’s application development service contracts are primarily on a fixed-price basis, which require the Company to perform services including project planning, project design, application development and system integration based on customers’ specific needs. These services also require significant production and customization. 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 three years (“PCS period”) after the customized application development services are delivered. The type of services for PCS clause is generally not specified in the contracts or as stand-ready services on when-and-if-available basis. The unspecified PCS is stand-ready service on when-and-if-available basis. It grants the customers on line and telephone access to technical support personnel during the term of the service. Specified PCS includes specified service term in the contract such as training.

The Company’s application development service revenues are generated primarily from contracts with PRC government or related agencies and state-owned enterprises. The contracts contain negotiated billing terms which generally include multiple payment phases throughout the contract term and a significant portion (30% - 50%) of contract amount usually is billed upon the completion of the related projects. Pursuant to the contract terms, the Company has enforceable right on payments for the work performed.

The Company sometimes provides a warranty for its application development service contracts. The warranty period is typically 12-36 months upon the completion of the application development service. In accordance with ASC 606-10-25-19, the Company believes the warranty provision in the contracts generally represents service-type warranty, which is a distinct performance obligation and the Company also provides the similar service on standalone basis and customers can benefit from the related service-type warranty service. For the service warranty component, the customer simultaneously receives and consumes the benefits provided by the company performance over the warranty term, therefore, the service warranty is satisfied over time. The revenue allocated to the service warranty is recognized over the warranty period.

The Company assesses that application development service, PCS or specific service and service-type warranty service, if applicable, are distinct performance obligations in the application development service contracts. The Company provides these services on standalone basis and customers are able to benefit from each of the service on its own. In addition, the timing of delivery of these performance obligations can be separately identifiable in the contracts. The transaction price is allocated to these identified performance obligations based on the relative standalone selling prices. The transaction price allocated to PCS or unspecific service and service-type warranty, if applicable, on a straight-line method over the contractual period. Revenue allocated to specified PCS is recognized as the related services are rendered. The transaction price allocated to application development service is recognized over time as the Company’s performance creates or enhances the project controlled by the customer and the control is transferred continuously to our customers. The Company uses an input method based on cost incurred as the Company believes that this method most accurately reflects the Company’s progress toward satisfaction of the performance obligation, which usually takes less than one year. Under this method, the transaction price allocated to application development service is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of significant accounting policies (continued)

Revenue recognition - continued

Incurring costs include all direct material, labor and subcontract costs, and those indirect costs related to application development performance, such as indirect labor, supplies, and tools. Cost-based input method requires the Company to make estimates of revenues and costs to complete the construction. In making such estimates, significant judgment is required to evaluate assumptions related to the costs to complete the application development, including materials, labor, and other system costs. The Company's estimates are based upon the professional knowledge and experience of our engineers and project managers to assess the contract's schedule, performance, technical matters. The Company has adequate cost history and estimating experience, and with respect to which management believes it can reasonably estimate total development costs. If the estimated costs are greater than the related revenues, the Company recognizes the entire estimated loss in the period the loss becomes known and can be reasonably estimated. Changes in estimates for application development services include but not limited to cost forecast changes and change orders. The cumulative effect of changes in estimates is recorded in the period in which the revisions to estimates are identified and the amounts can be reasonably estimated. To date, the Company has not incurred a material loss on any contracts. However, as a policy, provisions for estimated losses on such engagements will be made during the period in which a loss becomes probable and can be reasonably estimated. If contract modifications result in additional goods or services that are distinct from those transferred before the modification, they are accounted for prospectively as if the Company entered into a new contract. If the goods or services in the modification are not distinct from those in the original contract, sales and gross profit are adjusted using the cumulative catch-up method for revisions in estimated total contract costs and contract values.

In certain application development service arrangements, the Company sells and delivers IT equipment on standalone basis prior to the delivery of the services. In these cases, the Company controls the IT equipment before they are transferred to the customer. The Company has the right to direct the suppliers and control the goods or assets transferred to its customers. Thus, the Company considers it should recognize revenue as a principal in the gross amount of consideration to which it is entitled in exchange for the IT equipment delivered. The Company assesses the sale of equipment is separately identifiable from other promises in the contract and it is distinct performance obligation within the context of the contract. Accordingly, the revenue from the related IT equipment based on its relative standalone selling price is recognized upon customer acceptance after delivery.

(2) Revenue from consulting and technical support services

Revenue from consulting and technical support services is primarily comprised of fixed-fee contracts, which require the Company to provide professional consulting and technical support services over contract terms beginning on the commencement date of each contract, which is the date its service is made available to customers. Billings to the customers are generally on a monthly or quarterly basis over the contract term, which is typically 12 to 24 months. The consulting and technical support services contracts typically include a single performance obligation. The revenue from consulting and technical support services is recognized over the contract term on a straight-line basis as customers receive and consume benefits of such services.

(3) Revenue from subscription services

Revenue from subscription services is comprised of subscription fees from customers accessing the Company's software-as-a-service applications for a subscribed period. The Company's monthly or quarterly billing to customer is on the basis of number of uses or the actual usage by the customers. The subscription arrangements are considered service contracts because customers does not have the right to take possession of the software and can only benefit from the software when provided the right to access the software. Accordingly, the subscription services contracts typically include a single performance obligation. The revenue from subscription services is recognized over the contract term on a straight-line basis or based on the actual usage as customers receive and consume benefits of such services.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of significant accounting policies (continued)

Revenue recognition - continued

Revenue includes reimbursements of travel and out-of-pocket expense, with equivalent amounts of expense recorded in cost of revenue. The Company reports revenues net of value added tax ("VAT"). The Company's subsidiary in PRC are subject to a 6% to 13% value added tax ("VAT") and related surcharges on the revenues earned from providing services.

Practical Expedient and Exemptions

The Company does not disclose the value of unsatisfied performance obligations within one year by applying the right to invoice practical expedient provided by ASC 606-10-55-18.

Contract costs

Contract costs include contract acquisition costs and contract fulfillment costs which are all recorded within prepayments, deposits, and other assets in the consolidated balance sheets.

Contract acquisition costs consist of incremental costs incurred by the Company to originate contracts with customers. Contract acquisition costs, which generally include costs that are only incurred as a result of obtaining a contract, are capitalized when the incremental costs are expected to be recovered over the contract period. All other costs incurred regardless of obtaining a contract are expensed as incurred. Contract acquisition costs are amortized over the period the costs are expected to contribute directly or indirectly to future cash flows, which is generally over the contract term, on a basis consistent with the transfer of goods or services to the customer to which the costs relate. Contract fulfillment costs consist of costs incurred by the Company to fulfill a contract with a customer and are capitalized when the costs generate or enhance resources that will be used in satisfying future performance obligations of the contract and the costs are expected to be recovered. Capitalized contract fulfillment costs generally include contracted services, direct labor, materials, and allocable overhead directly related to resources required to fulfill the contract. Contract fulfillment costs are recognized in cost of revenue during the period that the related costs are expected to contribute directly or indirectly to future cash flows, which is generally over the contract term, on a basis consistent with the transfer of goods or services to the customer to which the costs are related. The contract fulfillment cost amounted to \$4,041,585 and \$2,999,411 as of December 31, 2020 and 2019, respectively. There was no contract acquisition costs as of December 31, 2020 and 2019.

Contract balance

The accounts receivable includes both unbilled accounts receivable and billed accounts receivable. The Company records unbilled accounts receivable for revenue that has been recognized in advance of billing the customer, which is common for application development service contracts. The unbilled accounts receivable represents the Company's right to consideration in exchange for the service that the Company has performed to the customer before payment is due and the unbilled account receivable will be reclassified into billed accounts receivable when the Company has the right to invoice. Contract liabilities are presented as customer deposits and deferred revenue on the consolidated balance sheet. Contract liabilities relate to payments received in advance of completion of performance obligations under a contract. Contract liabilities are recognized as revenue upon the completion of performance obligations. As of December 31, 2020 and 2019, the balance of customer deposits amounted to \$573,243 and \$270,793, respectively. As of December 31, 2020 and 2019, the balance of deferred revenue amounted to \$1,095,279 and \$869,396, respectively.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of significant accounting policies (continued)

Government subsidies

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

Advertising expenditures

Advertising expenditures are expensed as incurred and such expenses were minimal for the periods presented. Advertising expenditures have been included as part of selling and marketing expenses. For the years ended December 31, 2020, 2019 and 2018, the advertising expense amounted to \$53,445, \$61,174 and 21,168, respectively.

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.

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, when necessary, to reduce deferred tax assets to the amount expected to be realized.

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 period incurred. No significant penalties or interest relating to income taxes have been incurred during the years ended December 31, 2020, 2019 and 2018. All of the tax returns of the Company’s subsidiary in China remain subject to examination by the tax authorities for five years from the date of filing.

Value added tax

Revenue represents the invoiced value of service, net of VAT. The VAT is based on gross sales price and VAT rates range up to 13%, depending on the type of service provided. Entities that are VAT general taxpayers are allowed to offset qualified input VAT paid to suppliers against their output VAT liabilities. Net VAT balance between input VAT and output VAT is recorded in taxes payable. All of the VAT returns filed by the Company’s subsidiary in China, have been and remain subject to examination by the tax authorities for five years from the date of filing.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of significant accounting policies (continued)

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 was expensed as incurred.

(Loss) earnings per share

The Company computes (loss) earnings per share ("EPS") in accordance with ASC 260, "Earnings per Share". ASC 260 requires companies to present basic and diluted EPS. Basic EPS is measured as net income divided by the weighted average common share outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of the potential Ordinary Shares (e.g., convertible securities, options and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential Ordinary Shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS. For the year ended December 31, 2020 and 2019, since the company had a loss, basic and dilutive loss per share are the same. For the years ended December 31, 2018, there were nil potential dilutive ordinary shares.

Share-Based compensation

The Company accounts for share-based awards to employees and nonemployees directors and consultants in accordance with the provisions of ASC 718, Compensation—Stock Compensation, and under the recently issued guidance following FASB's pronouncement, ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. Under ASC 718, and applicable updates adopted, for employee stock-based awards, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense with graded vesting on a straight-line basis over the requisite service period for the entire award. For the non-employee stock-based awards, the fair value of the awards to non-employees are measured every reporting period based on the value of the Company's common stock.

Comprehensive income (loss)

Comprehensive income (loss) consists of two components, net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to revenue, expenses, gains and losses that under U.S. GAAP are recorded as an element of shareholders' equity but are excluded from net income. Other comprehensive income (loss) consists of a foreign currency translation adjustment resulting from the Company not using the U.S. dollar as its functional currencies.

Statement 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.

Commitments and Contingencies

In the normal course of business, the Company is subject to contingencies, including legal proceedings and claims arising out of the business that relate to a wide range of matters, such as government investigations and tax matters. The Company recognizes a liability for such contingency if it determines it is probable that a loss has occurred and a reasonable estimate of the loss can be made. The Company may consider many factors in making these assessments including historical and the specific facts and circumstances of each matter.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of significant accounting policies (continued)

Segment reporting

The Company's chief operating decision maker ("CODM") has been identified as its CEO, who reviews the consolidated results when making decisions about allocating resources and assessing performance of the Company as a whole and hence, the Company has only one reportable segment. The Company does not distinguish between markets or segments for the purpose of internal reporting. The Company's long-lived assets are substantially all located in the PRC and all of the Company's revenues are derived from the PRC. Therefore, no geographical segments are presented.

Concentrations of Risks

(a) Concentration of credit risk

Assets that potentially subject the Company to significant concentration of credit risk primarily consist of cash, restricted cash, accounts receivable and other current assets. The maximum exposure of such assets to credit risk is their carrying amounts as at the balance sheet dates. As of December 31, 2020 and 2019, the aggregate amount of cash and restricted cash of \$8,365,573 and \$5,606,425, respectively, were held at major financial institutions in PRC, which the management believes are of high credit quality. On May 1, 2015, China's new Deposit Insurance Regulation came into effect, pursuant to which banking financial institutions, such as commercial banks, established in China are required to purchase deposit insurance for deposits in RMB and in foreign currency placed with them. Such Deposit Insurance Regulation would not be effective in providing complete protection for the Group's accounts, as its aggregate deposits are much higher than the compensation limit. However, the Group believes that the risk of failure of any of these Chinese banks is remote. Bank failure is uncommon in China and the Group believes that those Chinese banks are financially sound based on public available information. The Company conducts credit evaluations of its customers and suppliers, and generally does not require collateral or other security from them. The Company establishes an accounting policy for allowance for doubtful accounts on the individual customer's and supplier's financial condition, credit history, and the current economic conditions.

(b) 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.

The Company's functional currency is the RMB, and the Company's financial statements are presented in U.S. dollars. The RMB depreciated by 1.3% in fiscal year 2019 and appreciated by 6.3% in fiscal year 2020. 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.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of significant accounting policies (continued)

Concentrations of Risks - continued

(c) Significant customers

For the year ended December 31, 2020, one customer accounted for 25.7% of the Company's total revenues. For the year ended December 31, 2019, two customers accounted 21.8% and 10.7% of the Company's total revenues. For the year ended December 31, 2018, no customer accounted for more than 10% of the Company's total revenues. As of December 31, 2020, no customer accounted for more than 10% of the Company's accounts receivable. As of December 31, 2019, one customer accounted 12.8% of the Company's accounts receivable.

(d) Significant suppliers

For the year ended December 31, 2020, one supplier accounted for 21.3% of the Company's total purchases. For the year ended December 31, 2019, one supplier accounted for 22.7% of the Company's total purchases. For the year ended December 31, 2018, three suppliers accounted for 12.9%, 11.2% and 10.3% of the Company's total purchases. As of December 31, 2020, one supplier accounted for 11.9% of the Company's total accounts payable. As of December 31, 2019, one supplier accounted for 11.4% of the Company's total accounts payable.

Recently issued accounting pronouncements

The Company considers the applicability and impact of all accounting standards updates ("ASUs"). Management periodically reviews new accounting standards that are issued. Under the Jumpstart Our Business Startups Act of 2012, as amended ("the JOBS Act"), the Company meets the definition of an emerging growth company, or EGC, and has elected the extended transition period for complying with new or revised accounting standards, which delays the adoption of these accounting standards until they would apply to private companies.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for all leases, including operating leases, with a term in excess of 12 months. The guidance also expands the quantitative and qualitative disclosure requirements. In July 2018, the FASB issued updates to the lease standard making transition requirements less burdensome. The update provides an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in the company's financial statements. The new guidance requires the lessee to record operating leases on the balance sheet with a right-of-use asset and corresponding liability for future payment obligations. FASB further issued ASU 2018-11 "Target Improvement" and ASU 2018-20 "Narrow-scope Improvements for Lessors." 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" ("ASU 2020-05") in response to the ongoing impacts to businesses in response to the coronavirus (COVID-19) pandemic. ASU 2020-05 provides a limited deferral of the effective dates for implementing previously issued ASU 842 to give some relief to businesses and the difficulties they are facing during the pandemic. ASU 2020-05 affects entities in the "all other" category and public Not-For-Profit entities that have not gone into effect yet regarding ASU 2016-02, Leases (Topic 842). Entities in the "all other" category may defer to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. As an emerging growth company, the Company will adopt this guidance effective January 1, 2022. The Company is evaluating the impact on its consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) ("ASU 2020-01"), which is intended to clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for the Company beginning January 1, 2021. The Company does not expect this guidance will have a material impact on its consolidated financial statements.

Except for the above-mentioned pronouncements, there are no new recent issued accounting standards that will have a material impact on the consolidated financial position, statements of operations and cash flows.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 — Accounts receivable, net

Accounts receivable, net, consists of the following:

	As of December 31	
	2020	2019
Accounts receivable	\$ 15,896,127	\$ 12,910,734
Less: Allowance for doubtful accounts	(1,581,142)	(1,669,658)
Total accounts receivable, net	\$ 14,314,985	\$ 11,241,076

Unbilled accounts receivable included in accounts receivable above amounted to \$7,526,282 and \$5,865,900 as of December 31, 2020 and 2019, respectively. The unbilled accounts receivables as of December 31, 2020 are expected to be billed within one year and collected over one year. The billed accounts receivable is expected to be collected within one year.

As of March 31, 2021, approximately \$2.1 million (or 13.5%) of total accounts receivable as of December 31, 2020 was collected. It represented 23.0% of billed accounts receivable balance and 3.0% of unbilled accounts receivable balance as of December 31, 2020 were subsequently collected, respectively.

Movement of allowance for doubtful accounts is as follows:

	As of December 31,		
	2020	2019	2018
Beginning balance	\$ 1,669,658	\$ 392,533	\$ 36,285
Provision (reverse) for doubtful accounts	-	3,276,200	372,635
Recovery	(189,286)	-	-
Written-off	-	(1,984,244)	-
Foreign currency translation adjustments	100,770	(14,831)	(16,387)
Ending balance	\$ 1,581,142	\$ 1,669,658	\$ 392,533

For the year ended December 31, 2019, the Company wrote off \$1,984,244 accounts receivable related to two customers.

Note 4 — Prepayments, deposits and other assets, net

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

	As of December 31,	
	2020	2019
Security deposits ⁽¹⁾	\$ 385,607	\$ 755,886
Advances to suppliers	1,508,022	31,449
Advances to employees	215,735	18,159
Prepaid expense	293,573	377,501
Others	288,464	158,554
	2,691,401	1,341,549
Less: Long term portion	(385,607)	(759,397)
Allowance for doubtful accounts	(306,513)	(31,139)
Prepayments, deposits and other assets – current portion	\$ 1,999,281	\$ 551,013

(1) Security deposits represent contract fulfillment deposits required by customer for specific projects, rent deposits and etc.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 — Prepayments, deposits and other assets, net (continued)

Movement of allowance for doubtful accounts is as follows:

	As of December 31,		
	2020	2019	2018
Beginning balance	\$ 31,139	\$ 14,047	\$ 19,422
Provision(recovery) for doubtful accounts	258,280	17,400	(4,510)
Foreign currency translation adjustments	17,094	(308)	(865)
Ending balance	<u>\$ 306,513</u>	<u>\$ 31,139</u>	<u>\$ 14,047</u>

Note 5 — Loans to third parties

Loans to third parties consisted of the following:

	As of December 31,	
	2020	2019
Unsecured loan receivable from third parties ⁽¹⁾	\$ 704,981	\$ 740,000
Guaranteed loan receivable from media business ⁽²⁾	68,095,019	-
	<u>68,800,000</u>	<u>740,000</u>
Less: Long term portion	(63,434,483)	-
Prepayments, deposits and other assets – current portion	<u>\$ 5,365,517</u>	<u>\$ 740,000</u>

(1) The Company had unsecured, interest-bearing loan receivables from various third parties. The maturity of these loans are generally within one year. As of December 31, 2020 and 2019, the loans to third parties amounted to \$704,981 and \$740,000 with annual interest rates approximately 8% and 5.3%.

(2) Pursuant to the agreement with Shenzhen Kezhi Technology Co., Ltd. (“Kezhi”) on September 25, 2020 and a series of amendments entered during the period from September 25, 2020 to May 16, 2021, the Company intends to expand to media business through Kezhi. The Company originally planned to acquire certain media business assets from Kezhi, however, due to uncertainties in COVID-19, the Company and Kezhi ultimately reached into a final agreement (“Final agreement”) on May 16, 2021. Pursuant to the Final agreement, the Company agreed to extend a working capital support loan to Kezhi in aggregated of \$68,095,019 with expected annual returns over two years and coupon interest rate of 5%. The expected annual return is as follows:

Twelve months ending December 31,	Expected annual return schedule
2021	\$ 4,660,536
2022	70,243,985
Total return payments (including principal and interest)	<u>\$ 74,904,521</u>

The effective annual interest rate based on the expected annual return schedule was approximately 5%. The repayment of loan is guaranteed by a third-party company. As of December 31, 2020, based on the above repayment plan, the Company included \$4,660,536 principal portion of the loan receivable in the current portion of loans to third parties and included \$63,434,483 in the non-current portion of loans to third parties.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 — Property and equipment, net

Property and equipment, net, consist of the following:

	As of December 31,	
	2020	2019
Computer equipment	\$ 494,803	\$ 409,346
Office equipment, fixtures and furniture	2,084,615	1,953,259
Capitalized development cost and software acquired	8,081,105	6,027,310
Automobiles	165,149	154,788
Subtotal	10,825,672	8,544,703
Less: accumulated depreciation and amortization	(3,641,571)	(1,980,063)
Total	\$ 7,184,101	\$ 6,564,640

Depreciation and amortization expense for the years ended December 31, 2020, 2019 and 2018 amounted to \$310,845, \$299,959 and \$272,458, respectively. The Company capitalized development costs related to its core supporting modules of the global trade applications and solutions for internal use incurred during the application development stage. The amortization expense for the years ended December 31, 2020, 2019 and 2018 totaled \$1,140,727, \$652,245 and \$370,807, respectively.

The estimated amortization of capitalized development cost is as follows:

Twelve months ending December 31,	Estimated amortization expense
2021	\$ 1,513,352
2022	1,385,346
2023	1,203,410
2024	911,125
2025	390,387
Thereafter	16,003
Total	\$ 5,419,623

Note 7 — Related party balances and transactions

Related party transactions and balances

a. Prepaid expense – related parties

The Company had consulting fee prepayment of \$121,144 to Guangzhou Powerbridge Blockchain Co., Ltd. as of December 31, 2019, which the Company has significant influence over with. In 2020, both parties negotiated to terminate the consulting service. The balance of \$129,254 as of December 31, 2020 was reclassified to due from related party and fully allowed in 2020.

For the year ended December 31, 2019, the Company incurred consulting fee prepayment \$685,167 to Hengqin Baisheng Investment, GP, which was a non-controlling shareholder of Powerbridge Ningbo. The balance of \$622,222 as of December 31, 2020 was reclassified to due from related party in 2020.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 — Related party balances and transactions (continued)

Related party transactions and balances - continued

b. Due from related parties:

As of December 31, 2020, the Company had \$129,254 due from Guangzhou Powerbridge Blockchain Co., Ltd., which was fully allowed in 2020. As of December 31, 2020, the Company had \$622,222 due from Hengqin Baisheng Investment, GP.

As of December 31, 2020 and 2019, the Company advanced \$30,651 and \$370,000 to Mr. Zongbo Jiang, the legal representative of Guangzhou Hongqiao Blockchain Co., Ltd, which the Company has significant influence over with. The balance collected in 2020.

b. Due to related party:

Due to related party as of December 31, 2020 amounted to \$71,020, which included \$8,855 unpaid expenses to Ling Lor, wife of CEO and director of the Company and \$62,165 unpaid expenses to Hong Yu, shareholder of Chongqing Power.

Due to related party as of December 31, 2019 amounted to \$6,538, which represents unpaid expenses to Ling Lor, wife of CEO and director of the Company.

Note 8 — Bank loans

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

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Loan from Bank of Communication	\$ 1,532,567	\$ 1,149,095
Loan from Bank of China	766,284	430,923
Loan from Guangfa Bank	2,298,850	-
	<u>\$ 4,597,701</u>	<u>\$ 1,580,018</u>

On April 25, 2019, Powerbridge Zhuhai entered into a loan agreement with Bank of Communication to obtain a loan of \$1,149,095 for a term of one year and at a floating rate based on prime borrowing rate in PRC. The bank loan was unsecured and guaranteed by Mr. Ban Lor, the Chairman and CEO of the Company, and his family member. The loan was fully repaid upon maturity.

On March 16, 2020, Powerbridge Zhuhai entered into a loan agreement with Bank of Communication to obtain a loan of \$1,532,532 for a term of half year and at a fixed annual interest rate of 5.003%. The bank loan was unsecured and guaranteed by Mr. Ban Lor, the Chairman and CEO of the Company, and his family member. The loan was fully repaid October 8, 2020.

On November 5, 2020, Powerbridge Zhuhai entered into a loan agreement with Bank of Communication to obtain a loan of \$1,532,567 for a term of one year and at a fixed annual interest rate of 4.5675%. The bank loan was unsecured and guaranteed by a third party.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 — Bank loans (continued)

On February 1, 2019, Powerbridge Zhuhai entered into a loan agreement with Bank of China to obtain a loan of \$430,923 for a term of one year and at a fixed annual interest rate of 4.6%. The bank loan was guaranteed by Mr. Ban Lor and secured by a restricted cash deposit of \$172,369 as of December 31, 2019. The loan was fully repaid upon maturity.

On January 9, 2020, Powerbridge Zhuhai entered into a loan agreement with Bank of China to obtain a loan of \$766,284 for a term of one year and at a fixed annual interest rate of 4.45%. The bank loan was guaranteed by Mr. Ban Lor and secured by a restricted cash deposit of \$114,943 as of December 31, 2020. The loan was fully repaid on December 25, 2020.

On March 4, 2020, Powerbridge Zhuhai entered into a loan agreement with Bank of China to obtain a loan of \$459,770 for a term of one year and at a fixed annual interest rate of 4.55%. The bank loan was guaranteed by Mr. Ban Lor. The loan was fully repaid upon maturity.

On December 14, 2020, Powerbridge Zhuhai entered into a loan agreement with Bank of China to obtain a loan of \$306,514 for a term of one year and at a fixed annual interest rate of 4.55%. The bank loan was guaranteed by Mr. Ban Lor.

On January 2, 2020, Powerbridge Zhuhai entered into a loan agreement with Guangfa Bank to obtain a loan of \$2,298,851 for a term of one year and at a fixed annual interest rate of 4.6%. The bank loan was guaranteed by Mr. Ban Lor and the company's account receivable of some programs was pledged to secure the loan. The loan was fully repaid upon maturity.

For the years ended December 31, 2020, 2019 and 2018, interest expense was \$203,289, \$123,278 and \$19,385, respectively, with the weighted average interest rate of 4.7%, 4.9% and 5.9%, respectively.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 — Convertible note

On September 7 2020, the Company entered into certain securities purchase agreement (the “Note SPA”) with certain “non-U.S. Person” (the “Investor”) as defined in Regulation S of the Securities Act of 1933, as amended (the “Securities Act”), pursuant to which the Company agreed to sell unsecured convertible promissory note in the aggregate principal amount of \$50,000,000 (the “Note”) with a maturity date of 12 months, an interest rate of 6.0% per annum, and a conversion price (“Holder Conversion Price”) equal to the lesser of i) \$2.00 per share or ii) 75% of the daily VWAPs (as reported by Bloomberg) for the ten (10) consecutive trading days ending on the trading day that is immediately prior to the date of Holder Conversion Notice, which shall not be lower than \$1.80 (the “Floor Price”). Pursuant to the Note, the Investor has the right at any time 7 days after the date of the issuance of the Note (the “Issuance Date”) until the outstanding balance of the Note (the “Outstanding Balance”) has been paid in full (such date, the “Conversion Date”), at its election, to convert (the “Holder Conversion”) all or any part of the Outstanding Balance into shares (each instance of conversion is referred herein as “Conversion Shares”, together with the Note, the “Securities”) of fully paid and non-assessable Ordinary Shares of the Company.

Conversion of convertible note

All Note Holders delivered the Conversion Notices to the Company on November 12, 2020 and the Company issued an aggregate of 27,777,776 restricted ordinary shares, par value \$0.00166667 per share, of the Company, to the Note Holders. The fair value of the conversion note was assessed at \$65,258,333 upon conversion based on the binomial model assessed by the independent valuation firm (Note 11).

The Company has elected to recognize the convertible loan at fair value and therefore there was no further evaluation of embedded features for bifurcation. The Company engaged third party valuation firm to perform the valuation of convertible loans. The fair value of the convertible loans is calculated using the binomial tree model based on probability of remaining as straight debt using discounted cash flow with the following assumptions

	November 12, 2020
Risk-free interest rate	0.12%
Expected life	0.96 year
Discount rate	6.23%
Expected volatility	77.6%
Expected dividend yield	0%
Fair value	\$ 65,258,333

The convertible loans are classified as level 3 instruments as the valuation was determined based on unobservable inputs which are supported by little or no market activity and reflect the Group’s own assumptions in measuring fair value. Significant inputs used in developing the fair value of the convertible loans include time to maturity, risk-free interest rate, straight debt discount rate, probability to convert and expected timing of conversion.

For the year ended December 31, 2020, the Company recognized a loss of change in fair value of convertible loan of \$15,258,333. Prior to the conversion on November 16, 2020, the fair value of the convertible loan was assessed at \$65,258,333, which was reclassified to equity upon conversion of the convertible loan on November 16, 2020.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 — Taxes

(a) Income tax

Cayman Islands

Powerbridge was incorporated in the Cayman Islands and is not subject to tax on income or capital gains under the laws of Cayman Islands. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Powerbridge HK is established in Hong Kong. Under the Hong Kong tax laws, Powerbridge HK is exempted from income tax on its foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

PRC

Powerbridge Zhuhai is governed by the Enterprise Income Tax (“EIT”) laws of PRC. Under EIT laws 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 on case-by-case basis. EIT grants preferential tax treatment to certain High and New Technology Enterprises (“HNTEs”). Under this preferential tax treatment, HNTEs are entitled to an income tax rate of 15%, subject to a requirement that they re-apply for HNTE status every three years. Powerbridge Zhuhai, the Company’s operating subsidiary in PRC, has been approved as HNTEs in 2014 and successfully renewed it in 2020, which reduced its statutory income tax rate to 15%. The rest of the Company’s subsidiaries in PRC are subject to income tax rate of 25%.

The impact of the preferred tax treatment noted above decreased income taxes by \$25,735, \$595,556 and \$158,167 for the fiscal year 2020, 2019 and 2018, respectively. The benefit of the preferred tax treatment on net income per share (basic and diluted) was nil, 0.07 and \$0.02 for the years ended December 31, 2020, 2019 and 2018, respectively.

Significant components of the provision for income taxes are as follows:

	For the years ended December 31,		
	2020	2019	2018
Current	\$ 109	\$ 11,164	\$ 113,088
Deferred	(80,641)	(224,511)	(69,898)
Total income tax (benefits) expenses	\$ (80,532)	\$ (213,347)	\$ 43,190

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 — Taxes (continued)

(a) Income tax - continued

The following table reconciles China statutory rates to the Company's effective tax rate:

	For the years ended December 31,		
	2020	2019	2018
PRC statutory rates	25.0%	25.0%	25.0%
Preferential tax rates	(25.0)%	(16.9)%	(9.9)%
R&D credits	1.7%	(3.4)%	(4.0)%
Change in valuation allowance and others	(1.3)%	(2.8)%	1.6%
Effective tax rate	<u>0.4%</u>	<u>1.9%</u>	<u>2.7%</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the deferred tax assets are as follows:

	As of December 31,	
	2020	2019
Deferred tax assets:		
Provision for doubtful accounts	\$ 302,536	\$ 255,119
Depreciation and amortization	112,595	53,992
Net operating loss carryforward	517,537	272,815
Valuation allowance	(517,537)	(272,815)
Total deferred tax assets	<u>\$ 415,131</u>	<u>\$ 309,111</u>

As of December 31, 2020, the Company has approximately \$3.3 million net operating loss ("NOL") carryforwards with expirations by 2025. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the cumulative earnings and projected future taxable income in making this assessment. Recovery of substantially all of the group's deferred tax assets is dependent upon the generation of future income, exclusive of reversing taxable temporary differences. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are recoverable, management provided \$517,537 and \$272,815 valuation allowance against the deferred tax assets that the Company does not expect to realize at December 31, 2020 and 2019, respectively.

(b) Value added tax

Enterprises who sell goods in the PRC are subject to a value added tax in accordance with PRC laws. VAT standard rates are 6% to 13% of the gross sales price. A credit is available whereby VAT paid on the purchases of semi-finished products or raw materials used in the production of the Company's finished products can be used to offset the VAT due on sales of the finished products and services. Powerbridge Zhuhai obtained a VAT preferential status for its technology development business, accordingly, the certain Company's technology development business is exempted from VAT.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 — Taxes (continued)

(c) Tax payable

Taxes payable consists of the following:

	<u>As of December 31,</u>	
	<u>2020</u>	<u>2019</u>
Income taxes payable	\$ 565,506	\$ 539,437
VAT and other tax payable	133,429	330,476
Totals	\$ 698,935	\$ 869,913

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. As of December 31, 2020 and 2019, the Company did not have any significant unrecognized uncertain tax positions. The Company did not incur any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2020 and 2019. The Company also does not anticipate any significant increases or decreases in unrecognized tax benefits in the next 12 months from December 31, 2020.

Note 11 — Equity

Ordinary Shares

Powerbridge was established under the laws of Cayman Islands on July 27, 2018. The original authorized number of Ordinary Shares was 500,000,000 shares with a par value of \$0.0001 per share. On August 18, 2018, in order to optimize the Company's share capital structure, the board of directors approved a reverse stock split of the Company's authorized number of Ordinary Shares at a ratio of 10-1. After the reverse stock split, the Company's authorized number of Ordinary Shares became 50,000,000 shares with par value of \$0.001 per share and 11,508,747 shares were issued on August 27, 2018 at par value to the original shareholders of Powerbridge Zhuhai, the equivalent to share capital of \$11,509. On February 10, 2019, the board of directors further approved a reverse stock split of the Company's authorized number of Ordinary Shares at a ratio of 1-0.6. After the reverse stock split, the Company's authorized number of Ordinary Shares was 30,000,000 shares with par value of \$0.00166667 per share and 6,905,248 shares were issued and outstanding immediately after the reserve stock split. The Company believes it is appropriate to reflect these share issuances as nominal share issuance on a retroactive basis similar to stock split pursuant to ASC 260. The Company has retroactively adjusted all shares and per share data for all the periods presented.

On September 30, 2020, the Company held its 2020 special general meeting of shareholders (the "Meeting"). At the Meeting, the Company's shareholders approved the Company's amended and restated Memorandum and Articles of Association ("A&R M&A") to increase the authorized share capital. As a result, the Company's authorized share capital is US\$500,000 divided into 300,000,000 shares of a par value of US\$0.00166667 each, with an increase of an additional 270,000,000 shares of a par value of US\$0.00166667 each.

The Company had 45,777,318 and 8,967,748 ordinary shares issued and outstanding as of December 31, 2020 and 2019, respectively.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 — Equity (continued)

Ordinary Shares - continued

- IPO

On April 4, 2019, the Company consummated its initial public offering (“IPO”) of 2,012,500 Ordinary Shares at a price of \$5.00 per shares including the exercise in full of the underwriters’ over-allotment option of 262,500 ordinary shares at IPO price of \$5.00 per share. The gross proceeds from the IPO was \$10,062,500 and the net proceeds was \$8,021,987. As a result of the IPO, the Ordinary Shares now trade on the Nasdaq Capital Market under the symbol “PBTS.”

- Public Offering Warrants

In connection with the IPO on April 4, 2019, the Company issued warrants totaling 122,500 units to the placement agents (the “Public Offering Warrants”). The warrants carry a term of five years and shall be exercisable at \$5.50 per share. Management determined that these warrants are equity instruments because the warrants are both a) indexed to its own stock; and b) classified in shareholders’ equity. The warrants were recorded at their fair value on the date of grant as a component of shareholders’ equity. No warrants were exercised for the year ended December 31, 2020 and 2019. As of December 31, 2020 and 2019, the total number of warrants outstanding was 122,500 with weighted average remaining life of 3.25 years and 4.26 years, respectively. No warrants were exercised as of December 31, 2020 and 2019. The fair value of this Public Offering Warrants was \$356,200, which was considered a direct cost of IPO and included in additional paid-in capital. The fair value has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying share of \$5.00, risk free rate of 2.2%; expected term of 5 years; exercise price of the warrants of \$5.5, volatility of 71.9%; and expected future dividends of nil.

- Ordinary shares issued for consulting services

On September 30, 2019, the Company entered into a marketing development service agreement with an external consultant for service term of three years and agreed to 50,000 restricted shares as compensation. On November 28, 2019, the Company entered into a marketing development service agreement with another external consultants for service term of three years and agreed to 57,540 restricted shares as compensation. The aggregated fair value of those restricted shares was assessed at \$335,469 based on the stock price of contract dates. For the year ended December 31, 2019, the Company recorded a consulting fee expense of \$18,430 included in the share based compensation expense. As of December 31, 2019, there were unrecognized share based compensation expense related to the restricted shares issued for consulting services amounted to \$317,039. As of December 31, 2019, the Company issued 50,000 restricted shares and issued the remaining 57,450 restricted shares in January 2020. For the year ended December 31, 2019, the aggregated of 107,540 restricted shares was included in the calculation of basic earning per shares in accordance with ASC 260-10-45-13.

On March 15, 2020, the Company signed a consulting agreement with an independent marketing professional with term of one year. Pursuant to the agreement, the Company agreed to pay total of 150,000 ordinary shares as compensation for the services after signing of the agreement. The Company issued 150,000 restricted ordinary shares on April 14, 2020. The fair value of those shares was assessed at approximately \$332,100 based on the stock price of contract date. On July 30, 2020, the Company issued 24,254 ordinary shares as compensation to an advisory firm for the related investor relations advisory service during the period ended from January 2020 to July 2020. The fair value of those shares was assessed at approximately \$65,001 based on the stock price of contract date. On September 26, 2020, the Company signed a consulting agreement with a third party consultant. Pursuant to the agreement, the Company agreed to pay a total of 100,000 ordinary shares as compensation for new business segment strategic positioning and planning services. The Company has not issued the above 100,000 shares as of December 31, 2020. On August 17, 2020, the Company signed a consulting agreement with a third party consultant. Pursuant to the agreement, the Company agreed to pay a total of 10,000 ordinary shares as compensation for services. The Company has not issued the above 10,000 shares as of December 31, 2020.

For the year ended December 31, 2020, the Company recorded a consulting fee expense of \$487,347 included in the share based compensation expense. As of December 31, 2020, there were unrecognized share based compensation expense related to the restricted shares issued for consulting services amounted to \$490,094. For the year ended December 31, 2020, the aggregated of 110,000 shares legally issuable to the two third party consultants were included in the calculation of basic earning per shares in accordance with ASC 260-10-45-13.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 — Equity (continued)

2018 Stock option plan

On August 18, 2018 and further amended on February 10, 2019, the Board of Directors (“Board”) approved an amended the 2018 Stock Option Plan (the “2018 Plan”). The Plan provides for discretionary grants of stock options to key employees, directors and consultants of the Company. The purpose of the Plan is to attract and retain the best available personnel and to promote the success of the Company’s business. The Board authorized that the maximum aggregate number of ordinary shares reserved and available pursuant to this Plan shall be the aggregate of (i) 1,035,787 shares, and (ii) on each January 1, starting with January 1, 2019, an additional number of shares equal to the lesser of (A) 2% of the outstanding number of ordinary shares (on a fully-diluted basis) on the immediately preceding December 31, and (B) such lower number of ordinary shares as may be determined by the Committee. The Plan shall become effective on the effective date of the Company’s contemplated initial public offering is completed, which was on April 4, 2019. The grants under the Plan generally have a maximum contractual term of ten years from the date of grant. Stock option awards granted under the plan at the determination of the Board shall be effective and exercisable after the Company’ completion of IPO of its securities. The terms of individual agreements for various grants under the Plan will be determined by the Board (or its Compensation Committee) and might contain both service and performance conditions. The Company believes the options contain an explicit service condition and a performance condition. On July 2, 2020, the Board approved to amend the 2018 Plan to adjust that the maximum aggregate number of ordinary shares reserved and available pursuant to the 2018 Plan shall not at any time exceed 20% of the total number of outstanding Ordinary Shares at the time of issuance, from time to time. Such amendment was approved during shareholders’ annual meeting on July 27, 2020.

On April 4, 2019, the Board approved to issue 1,050,500 stock options to its employees under 2018 stock option plan with exercise price of \$5.0 per share. These options generally have vesting periods of 1-3 years and will expire no later than April 3, 2024.

On April 4, 2019, the Board approved to issue 300,000 stock options to an external consultant under 2018 stock option plan with exercise price of \$3.75 per share. These options were fully vested upon grant and will expire no later than April 3, 2029.

The fair value of stock options was determined at the date of grant using the Black-Scholes option pricing model. The Black-Scholes option model requires management to make various estimates and assumptions, including expected term, expected volatility, risk-free rate, and dividend yield. The expected term represents the period of time that stock-based compensation awards granted are expected to be outstanding and is estimated based on considerations including the vesting period, contractual term and anticipated employee exercise patterns. Expected volatility is based on the historical volatility of the Company’s stock. The risk-free rate is based on the U.S. Treasury yield curve in relation to the contractual life of stock-based compensation instruments. The dividend yield assumption is based on historical patterns and future expectations for the Company dividends. For the year ended December 31, 2020, assumptions used to estimate the fair value of stock options on the grant dates are as follows:

	Options granted in April 2019
Risk-free interest rate	2.3%-2.5%
Expected life of the options	5-10 years
Expected volatility	71.9%
Expected dividend yield	0%
Fair value	\$ 4,376,500

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 — Equity (continued)

2018 Stock option plan

A summary of activities of the stock options for the years ended December 31, 2019 and 2020 is presented as follows:

	Number of Share Options	Weighted Average Exercise Price US\$	Weighted Average Remaining Contractual Term Year	Aggregate Intrinsic Value US\$
Outstanding as of January 1, 2019	-	-	-	-
Granted	1,350,500	4.72	-	-
Expired, forfeited or cancelled	-	-	-	-
Outstanding as of December 31, 2019	<u>1,350,500</u>	4.72	5.37	-
Granted	-	-	-	-
Expired, forfeited or cancelled	-	-	-	-
Outstanding as of December 31, 2020	<u>1,350,500</u>	4.72	4.37	-
Exercisable as of December 31, 2020	<u>760,667</u>	4.51	5.23	-

For the year ended December 31, 2020 and 2019, total share-based compensation expenses recognized for the share options granted were \$986,629 and \$2,333,460, respectively. As of December 31, 2020 and 2019, there were \$1,056,410 and \$2,043,040 unrecognized share-based compensation expenses related to the share options granted, respectively.

2020 Private placement

On August 24, 2020, Company closed certain non-broker securities purchase agreements (the “SPAs”) with certain “non-U.S. Persons” (the “Purchasers”) as defined in Regulation S of the Securities Act of 1933, as amended (the “Securities Act”) pursuant to which the Company agreed to sell an aggregate of 8,800,000 ordinary shares, \$0.00166667 par value per share of the Company (“Share”), at a per share purchase price of \$2.00 (the “Offering”). The net proceeds to the Company from such Offering was \$17.6 million.

2020 Conversion of convertible loan

On November 16, 2020, the Company issued an aggregate of 27,777,776 restricted ordinary shares, par value \$0.00166667 per share, of the Company, to the conversion note holders (Note 10). The fair value of the conversion note was assessed at \$65,258,333 upon conversion based on the binomial model assessed by the independent valuation firm.

Additional paid-in capital

As of December 31, 2020 and 2019, additional paid-in capital in the consolidated balance sheet represented the combined contributed capital of the Company’s subsidiaries.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 — Equity (continued)

Statutory reserve

Under PRC law, the Company's subsidiary located in the PRC (collectively referred as the ("PRC entities")) are required to provide for certain statutory reserves. The PRC entities are required to allocate at least 10% of their after-tax profits on an individual company basis as determined under PRC accounting standards to the statutory reserve and has the right to discontinue allocations to the statutory reserve if such reserve has reached 50% of registered capital on an individual company basis.

The Company's subsidiaries in PRC had accumulated deficits for the years ended December 31, 2020 and 2019, as a result, the statutory reserve balances were Nil as of December 31, 2020 and 2019.

Note 12 — Commitments and contingencies

Contingencies

From time to time, the Company may be subject to certain legal proceedings, claims and disputes that arise in the ordinary course of business. Although the outcomes of these legal proceedings cannot be predicted, the Company does not believe these actions, in the aggregate, will have a material adverse impact on its financial position, results of operations or liquidity.

Lease commitment

The Company has entered into non-cancellable operating lease agreements for several offices and dormitory spaces for its employees. The leases are expiring through 2022. The Company's commitments for minimum lease payment under these operating leases as of December 31, 2020 are as follow:

Twelve months ending December 31,	Minimum lease payment
2021	\$ 204,442
2022	59,446
2023	21,567
Total	<u>\$ 285,455</u>

Rent expense for the years ended December 31, 2020, 2019 and 2018 were \$305,832, \$492,530 and \$386,076, respectively.

Note 13 — Segment reporting

For the years ended December 31, 2020 and 2019, the Company's CODM reviewed the financial information of the business carried out by the Company on a consolidated basis. Therefore, the Company has one operating segment, which is the provision of global trade software application and technology services. The Company operates solely in the PRC and all of the Company's long-lived assets are located in the PRC.

The following table presents revenues by the service lines:

	For the Years Ended December 31,		
	2020	2019	2018
REVENUES:			
Application development services*	\$ 21,985,214	\$ 15,720,676	\$ 20,037,861
Consulting and technical support services	3,797,354	3,307,662	2,390,948
Subscription services	881,443	1,066,720	723,458
Total revenues	<u>\$ 26,664,011</u>	<u>\$ 20,095,058</u>	<u>\$ 23,152,267</u>

* For the year ended December 31, 2020 and 2019, certain application development service arrangements included sales of IT equipment. Such revenue of \$6,299,982 and \$1,554,428 was included in the application development service revenue for years ended December 31, 2020 and 2019, respectively.

POWERBRIDGE TECHNOLOGIES CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 — Subsequent events

On January 8, 2021, the Company entered into a securities purchase agreement (the “Purchase Agreement”) with Uptown Capital, LLC, a Utah limited liability company (the “Investor”), pursuant to which the Company issued the Investor an unsecured promissory note on January 8, 2021 in the original principal amount of \$1,650,000 (the “Note”), convertible into ordinary shares, par value \$0.00166667 per share, of the Company (the “Ordinary Shares”), for \$1,500,000 in gross proceeds. The transaction contemplated by the Purchase Agreement closed on January 8, 2021. The Note bears interest at a rate of 9% per annum compounding daily. All outstanding principal and accrued interest on the Note will become due and payable twelve months after the purchase price of the Note is delivered by Purchaser to the Company (the “Purchase Price Date”). The Note includes an original issue discount of \$150,000 along with \$20,000 for Investor’s fees, costs and other transaction expenses incurred in connection with the purchase and sale of the Note. The Company may prepay all or a portion of the Note at any time by paying 120% of the outstanding balance elected for pre-payment.

On February 23, 2021, the Company entered into a Sales Agreement (the “Sales Agreement”) with A.G.P./Alliance Global Partners, as sales agent (the “Agent”), pursuant to which the Company may offer and sell, from time to time, through or to the Agent, as sales agent and/or principal (the “Offering”) up to \$30,000,000 of its ordinary shares, par value \$0.00166667 per share (the “Shares”). Any Shares offered and sold in the Offering will be issued pursuant to the Company’s Registration Statement on Form F-3 (the “Registration Statement”) filed with the Securities and Exchange Commission (the “SEC”) on February 23, 2021, and the sales agreement prospectus that forms a part of such Registration Statement, following such time as the Registration Statement is declared effective by the SEC, for an aggregate offering price of up to \$200 million.

On February 23, 2020, the Board approved to register all the shares issuable under the Company’s 2018 Amended Option Plan in a registration statement on a Form S-8, representing 9,155,464 ordinary shares issuable under our Amended 2018 Stock Option Plan. As of the date hereof, the Company has issued certain options to the employees, advisors, and consultants of the Company under Plan to purchase in an aggregate amount of 9,155,464 Ordinary Shares the grants have been made under the plan as of the date hereof.

On April 9, 2021, the Company entered into a securities purchase agreement with YA II PN, LTD. (the “Investor”), pursuant to which the Investor purchases convertible notes (the “Notes”) in the principal amount of US\$7,000,000 (the “Principal”), which shall be convertible into the Company’s ordinary shares (the “Ordinary Shares”) par value \$0.00166667 per share, and a warrant (the “Warrant”) to purchase 571,429 Ordinary Shares (the “Offering”), for gross proceeds of approximately US\$6,790,000. The Notes have a conversion price (the “Conversion Price”) of the lower of (i) US\$3.675 per Ordinary Shares (the “Fixed Conversion Price”), or (ii) 90% of the lowest daily VWAP (as defined in the Note) during the 10 consecutive trading days immediately preceding the conversion date or other date of determination, but not lower than the floor price of US\$1.50 per ordinary share. The Principal will become due and payable 12 months from the date of closing (the “Maturity Date”) and bears an annual interest rate of 6% unless earlier converted or redeemed by the Company. At any time before the Maturity Date, the Investor may convert the Notes at its option into Ordinary Shares at the Conversion Price. The Company has the right, but not the obligation, to redeem (“Optional Redemption”) a portion or all amounts outstanding under the Notes prior to the Maturity Date at a cash redemption price equal to the outstanding Principal balance to be redeemed, plus the applicable redemption premium, plus accrued and unpaid interest; provided that the trading price of the ordinary shares is less than the Fixed Conversion Price and the Company provides Investor with at least 15 business days’ prior written notice of its desire to exercise an Optional Redemption. The Investor may convert all or any part of the Notes after receiving a redemption notice, in which case the redemption amount shall be reduced by the amount so converted. No public market currently exists for the Notes, and the Company does not intend to apply to list the Notes on any securities exchange or for quotation on any inter-dealer quotation system. The Notes contain customary events of default, indemnification obligations of the Company and other obligations and rights of the parties. The Warrant is subject to anti-dilution provisions to reflect stock dividends and splits, and future securities offerings at lower prices with certain exception. The Offering will be conducted in two closings. The first closing consists of offer and sale of a Note in the principal amount of \$4,000,000. The first closing occurred on April 9, 2021. The second closing consists of offer and sale of a Note in the principal amount of \$3,000,000 and the Warrant. The second closing is expected to occur within five (5) trading days of the Company files its Form 20-F with the Securities and Exchange Commission (“SEC”) for the fiscal year ended December 31, 2020 in compliance with applicable rules and regulations promulgated by the SEC and is subject to various conditions. The Warrant will be exercisable immediately following the date of issuance for a period of five years at an initial exercise price of \$3.675. The Warrant is subject to anti-dilution provisions to reflect stock dividends and splits, and future securities offerings at lower prices with certain exception. No public market currently exists for the Warrant, and the Company does not intend to apply to list the Warrant on any securities exchange or for quotation on any inter-dealer quotation system. The Notes and Warrant are and will be offered pursuant to the Company’s effective registration statement on Form F-3 (Registration Statement No. 333-253395) previously filed with the SEC and prospectus supplements thereunder.

On March 9, 2021, Powerbridge Zhuhai entered into a loan agreement with Bank of China to obtain a loan of \$459,770 for a term of one year and at a fixed annual interest rates of 4.5%. The bank loan was guaranteed by Mr. Ban Lor.

On March 10, 2021, Powerbridge Zhuhai entered into a loan agreement with Guangfa Bank to obtain a loan of \$2,298,851 for a term of one years and at a fixed annual interest rate of 5.3%, The bank loan was guaranteed by Mr. Ban Lor and the company’s account receivable of some programs was pledged to secure the loan.

POWERBRIDGE TECHNOLOGIES CO., LTD.
Amended 2018 Stock Option Plan

1. **Purposes of the Plan.** The purposes of this Plan are to attract and retain the best available personnel, to provide additional incentives to Employees, Directors and Consultants and to promote the success of the Company's business.
 2. **Definitions.** The following definitions shall apply as used herein and in the individual Stock Option Agreements except as defined otherwise in an individual Stock Option Agreement. In the event a term is separately defined in an individual Stock Option Agreement, such definition shall supersede the definition contained in this Section.
 - (a) **"Administrator"** means the Board or any of the Committees appointed to administer the Plan or such Officer or Officers as authorized by the Board or any of the Committees appointed to administer the Plan.
 - (b) **"Affiliate"** and **"Associate"** shall have the respective meanings ascribed to such terms in Rule 12b-2 promulgated under the Exchange Act.
 - (c) **"Applicable Laws"** means the legal requirements relating to the Plan and the Options under applicable provisions of the corporate and securities laws of any jurisdiction, the Code, the rules of any applicable stock exchange or national market system, and the rules of any jurisdiction applicable to Option granted to residents therein.
 - (d) **"Appointment Letter"** refers to documentation that describes the terms and conditions in which each Employee, Director, or Consultant is employed, appointed, or enlisted to service the Company and/or its subsidiaries and affiliated companies.
 - (e) **"Articles"** refers to the Company's Memorandum of Articles of Association (Approved at the general meeting dated August 18, 2018).
 - (f) **"Board"** means the Board of Directors of the Company.
 - (g) **"Change in Control"** means a change in ownership or control of the Company effected through either of the following transactions:
 - i. the direct or indirect acquisition by any person or related group of persons (other than an acquisition from or by the Company or by a Company-sponsored employee benefit plan or by a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders which a majority of the Continuing Directors who are not Affiliates or Associates of the offeror do not recommend such shareholders accept, or
 - ii. a change in the composition of the Board over a period of thirty-six (36) months or less such that a majority of the Board members (rounded up to the next whole number) ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who are Continuing Directors.
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- (h) “**Code**” means the Internal Revenue Code of 1986, as amended.
- (i) “**Committee**” means any committee composed of members of the Board appointed by the Board to administer the Plan, including but not limited to the Compensation Committee as appointed by the Board.
- (j) “**Company**” means Powerbridge Technologies Co., Ltd., an exempt company incorporated in Cayman Islands.
- (k) “**Consultant**” means any person (other than an Employee or a Director, solely with respect to rendering services in such person’s capacity as a Consultant) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity.
- (l) “**Continuing Directors**” means members of the Board who either (i) have been Board members continuously for a period of at least thirty-six (36) months or (ii) have been Board members for less than thirty-six (36) months and were elected or nominated for election as Board members by at least a majority of the Board members described in clause (i) who were still in office at the time such election or nomination was approved by the Board.
- (m) “**Continuous Service**” means that the provision of services to the Company or a Related Entity in any capacity of Employee, Director or Consultant (collectively, “Service Provider”) is not interrupted or terminated. In jurisdictions requiring notice in advance of an effective termination as an Employee, Director or Consultant, Continuous Service shall be deemed terminated upon the actual cessation of providing services to the Company or a Related Entity notwithstanding any required notice period that must be fulfilled before a termination as an Employee, Director or Consultant can be effective under Applicable Laws. An Optionee’s Continuous Service shall be deemed to have terminated either upon an actual termination of Continuous Service or upon the entity for which the Optionee provides services ceasing to be a Related Entity. Continuous Service shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entity, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director or Consultant (except as otherwise provided in the Option Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave.
- (n) “**Corporate Transaction**” means any of the following transactions, provided, however, that the Administrator shall determine under parts (iv) and (v) whether multiple transactions are related, and its determination shall be final, binding and conclusive:
- i. a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the jurisdiction in which the Company is incorporated;
 - ii. the sale, transfer or other disposition of all or substantially all of the assets of the Company;

- iii. the complete liquidation or dissolution of the Company;
 - iv. any reverse merger or series of related transactions culminating in a reverse merger (including, but not limited to, a tender offer followed by a reverse merger) in which the Company is the surviving entity but (A) the Ordinary Shares outstanding immediately prior to such merger are converted or exchanged by virtue of the merger into other property, whether in the form of securities, cash or otherwise, or (B) in which securities possessing more than forty percent (40%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger or the initial transaction culminating in such merger, but excluding any such transaction or series of related transactions that the Administrator determines shall not be a Corporate Transaction; or
 - v. acquisition in a single or series of related transactions by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities but excluding any such transaction or series of related transactions that the Administrator determines shall not be a Corporate Transaction.
- (o) **"Director"** means a member of the Board or the board of directors of any Related Entity.
- (p) **"Disability"** means as defined under the long-term disability policy of the Company or the Related Entity to which the Optionee provides services regardless of whether the Optionee is covered by such policy. If the Company or the Related Entity to which the Optionee provides service does not have a long-term disability plan in place, "Disability" means that an Optionee is unable to carry out the responsibilities and functions of the position held by the Optionee by reason of any medically determinable physical or mental impairment for a period of not less than ninety (90) consecutive days. An Optionee will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Administrator in its discretion.
- (q) **"Effective Date"** means the date the Plan is adopted and approved by the shareholders of the Company, whether it be the first time the Plan is approved, or each date the Plan is renewed pursuant to shareholder approval in subsequent terms.
- (r) **"Employee"** means any person, including an Officer or Director, who is in the employment of the Company or any Related Entity, subject to the control and direction of the Company or any Related Entity as to both the work to be performed and the manner and method of performance. The payment of a director's fee by the Company or a Related Entity shall not be sufficient to constitute "employment" by the Company.

- (s) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.
- (t) “**Fair Market Value**” means, as of any date, the value of the subject Shares determined as follows:
- i. If the Shares at issue are listed on one or more established stock exchanges or national market systems, including without limitation the American Stock Exchange or The Nasdaq Global Market, its Fair Market Value shall be the closing sales price for such shares (or the closing bid, if no sales were reported) as quoted on the principal exchange or system on which the subject Shares are listed (as determined by the Administrator) on the date of determination (or, if no closing sales price or closing bid was reported on that date, as applicable, on the last trading date such closing sales price or closing bid was reported), as reported in The Wall Street Journal or such other source as the Administrator deems reliable;
 - ii. If the subject Shares are regularly quoted on an automated quotation system (including the OTC Bulletin Board) or by a recognized securities dealer, its Fair Market Value shall be the closing sales price for such shares as quoted on such system on the date of determination, but if selling prices are not reported, the Fair Market Value of the subject Shares shall be the mean between the high bid and low asked prices for the Shares on the date of determination (or, if no such prices were reported on that date, on the last date such prices were reported), as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or
 - iii. In the absence of an established market for the subject Shares of the type described in (i) and (ii), above, the Fair Market Value thereof shall be determined by the Administrator in good faith.
- (u) “**Listing**” refers to a successful initial public offering in the Company’s Ordinary Shares to be traded on a globally accredited stock exchange.
- (v) “**Incentive Share Option**” means an Option that is to qualify as an Incentive Share Option as such term is defined in Section 422 of the Code.
- (w) “**Officer**” means a person who is an officer of the Company or a Related Entity within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (x) “**Option**” means an option to purchase Ordinary Shares pursuant to an Option Agreement granted under the Plan.
- (y) “**Optionee**” means an Employee, Director or Consultant who receives an Option under the Plan.
- (z) “**Ordinary Shares**” means the Ordinary Shares in the capital of the Company having a par value of USD0.00166667 each having rights, and subject to the restrictions provided in the Company’s Articles. One Ordinary Share shall equate to one vote per share for each share held by the shareholder and cannot be converted to any other class of share at any time.

- (aa) “**Plan**” means this Powerbridge Technologies Co., Ltd. 2018 Stock Option Plan, as amended from time to time.
- (bb) “**Related Entity**” means any Parent or Subsidiary of the Company and any business, corporation, partnership, limited liability company or other entity in which the Company or a Parent or a Subsidiary of the Company holds a substantial ownership interest, directly or indirectly.
- (cc) “**Replaced**” means that pursuant to a Corporate Transaction the Option is replaced with a comparable share Option or a cash incentive program of the Company, the successor entity (if applicable) or Parent of either of them which preserves the compensation element of such Option existing at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same (or a more favorable) vesting schedule applicable to such Option. The determination of Option comparability shall be made by the Administrator and its determination shall be final, binding and conclusive.
- (dd) “**Share**” or “**Shares**” means Ordinary Shares of the Company.
- (ee) “**Stock Option Agreement**” or “**Option Agreement**” means the written agreement evidencing the grant of an Option executed by the Company and the Optionee, including any amendments thereto.
- (ff) “**Subsidiary**” means a “subsidiary corporation”, whether now or hereafter existing, as defined in Section 424(f) of the Code.
- (gg) “**Trading Market Approval**” means the pre-approval required from the globally accredited stock exchange or other stock exchange on which the Company’s Shares are then listed for trading for certain Share issuances.

3. Shares Subject to the Plan.

- (a) Subject to the provisions of Section 10 below, the total number of Ordinary Shares in the capital of the Company issuable upon the exercise of all outstanding Options granted under this Plan shall not at any time exceed 20% of the total number of outstanding Ordinary Shares, from time to time.
- (b) Further, if, after the Effective Date of the Plan, any Shares underlying an Option are forfeited, or if an Option otherwise terminates without the delivery of Shares or of other consideration, then the Shares underlying such Option, or the number of Shares otherwise counted against the aggregate number of Shares available under the Plan with respect to the Option, to the extent of any such forfeiture or termination, shall again be, or shall become, available for granting options under the Plan.

4. Administration of the Plan.

(a) Plan Administrator.

- i. Administration with Respect to Directors and Officers. With respect to grants of Options to Directors or Employees who are also Officers or Directors of the Company, the Plan shall be administered by (A) the Board or (B) the Compensation Committee designated by the Board, which Compensation Committee shall be constituted in such a manner as to satisfy the Applicable Laws. Once appointed, such Compensation Committee shall continue to serve in its designated capacity contingent to its members' ongoing fulfillment of obligations, the terms of termination of Committee members as stipulated by their Appointment Letters, or until otherwise directed by the Board. In the case of Options for Employees or Consultants who are neither Directors nor Officers of the Company, the Board may authorize one or more Officers to grant such Options and may limit such authority as the Board determines from time to time.
- ii. Administration Errors. In the event an Option is granted in a manner inconsistent with the provisions of this subsection (a), such Option shall be presumptively valid as of its grant date to the extent permitted by the Applicable Laws.

(b) Powers of the Administrator. Subject to Applicable Laws, especially but not limited to those regarding shareholders approval, and the provisions of the Plan (including any other powers given to the Administrator hereunder), and except as otherwise provided by the Board, the Administrator shall have the authority, in its discretion:

- i. To select the Employees, Directors and Consultants to whom Options may be granted;
- ii. To determine whether and to what extent Options are granted hereunder;
- iii. To determine the number of Shares or the amount of other consideration to be covered by each Option granted hereunder;
- iv. To approve forms of Option Agreements for use under the Plan;
- v. To determine the terms and conditions of any Option subject to the terms and conditions contained herein
- vi. To amend the terms of any outstanding Option granted under the Plan, provided that (A) any amendment that would adversely affect the Optionee's rights under an outstanding Option shall not be made without the Optionee's written consent, (B) the reduction of the exercise price of any Option shall be subject to the Optionee's written consent and (C) canceling an Option at a time when its exercise price exceeds the Fair Market Value of the underlying Shares, in exchange for another Option shall be subject to the Optionee's approval, unless the cancellation and exchange occurs in connection with a Corporate Transaction. Notwithstanding the foregoing, canceling an Option in exchange for another Option with an exercise price, purchase price that is equal to or greater than the exercise price of the original Option shall not be subject to the Optionee's approval;

vii. To construe and interpret the terms of the Plan and Options, including without limitation, any notice of Option or Option Agreement, granted pursuant to the Plan;

viii. To take such other action, not inconsistent with the terms of the Plan, as the Administrator deems appropriate.

- (c) **Indemnification.** In addition to such other rights of indemnification as they may have as members of the Board or as Officers or Employees of the Company or a Related Entity, members of the Board and any Officers or Employees of the Company or a Related Entity to whom authority to act for the Board, the Administrator or the Company is delegated shall be defended and indemnified by the Company to the extent permitted by law on an after-tax basis against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any claim, investigation, action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any Option granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by the Company) or paid by them in satisfaction of a judgment in any such claim, investigation, action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such claim, investigation, action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct; provided, however, that within thirty (30) days after the institution of such claim, investigation, action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at the Company's expense to defend the same.

For the purpose of this clause "gross negligence" means in relation to a person a standard of conduct constituting extreme carelessness, beyond ordinary negligence, whereby that person's actions or inactions demonstrate reckless disregards for the duty of care owed to another.

5. **Eligibility.** The Optionees shall be such persons as the Administrator may select from among the Employees, Directors, and Consultants.

6. Terms and Conditions of Options.

- a. **Designation of Option.** Each Option shall be designated in the Option Agreement.
- b. **Conditions of Option.** Subject to the terms of the Plan, the Administrator shall determine the provisions, terms, and conditions of each Option including, but not limited to, the Option vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, Shares, cashless settlement, or other consideration) upon settlement of the Option, payment contingencies and the exercise price.

- c. Deferral of Option Payment. The Administrator may establish one or more programs under the Plan to permit selected Optionees the opportunity to elect to defer receipt of consideration upon exercise of an Option, or other event that absent the election would entitle the Optionee to payment or receipt of Shares or other consideration under an Option. The Administrator may establish the election procedures, the timing of such elections, the mechanisms for payments of, and accrual of interest or other earnings, if any, on amounts, Shares or other consideration so deferred, and such other terms, conditions, rules and procedures that the Administrator deems advisable for the administration of any such deferral program.
- d. Early Exercise. The Option Agreement may, but need not, include a provision whereby the Optionee may elect at any time while an Employee, Director or Consultant to exercise any part or all of the Option prior to full vesting of the Option. Any unvested Shares received pursuant to such exercise may be subject to a repurchase right in favor of the Company or a Related Entity or to any other restriction the Administrator determines to be appropriate.
- e. Term of Option. The term of each Option shall be the term stated in the Option Agreement, provided, however that in the case of an option that is to qualify as an Incentive Share Option, the term shall not exceed ten (10) years.
- f. Transferability of Options. Options shall be transferable (i) at will and by the laws of succession and distribution; (ii) during the lifetime of the Optionee, to the extent and in the manner authorized by the Administrator; and (iii) upon delivery of a written assignment of the Options duly executed by the Optionee at the principal office of the Company, along with the Options and funds sufficient to pay any transfer taxes payable upon the making of such transfer. The Optionee shall surrender its Options to the Company within seven (7) calendar days of the date on which the Optionee delivers the assignment form to the Company assigning its Options. Upon such surrender and, if required, such payment, the Company shall execute and deliver new Options in the name of the assignee and shall promptly cancel the surrendered Options. Notwithstanding the foregoing, the Optionee may designate one or more beneficiaries of the Optionee's Option in the event of the Optionee's death on a beneficiary designation form provided by the Administrator
- g. Termination of Employment Other than by Death or Disability.
 - i. If an Optionee ceases to be an Employee for any reason other than his or her death or disability, the Optionee shall have the right, subject to the provisions of this Section 6, to exercise any Option held by the Optionee at any time within sixty (60) days after his or her termination of employment, but not beyond the otherwise applicable term of the Option and only to the extent that on such date of termination of employment the Optionee's right to exercise such Option has vested.
 - ii. For purposes of this Section 6(j), the employment relationship shall be treated as continuing intact while the Optionee is an active Employee of the Company or any Affiliate, or is on military leave, sick leave, or other bona fide leave of absence to be determined in the sole discretion of the Administrator.

- h. Death of Optionee. If an Optionee dies while an Employee, or after ceasing to be an Employee but during the period while he or she could have exercised an Option under Section 6(j), any Option granted to the Optionee may be exercised, to the extent it had vested at the time of death and subject to the Plan, at any time within six (6) months after the Optionee's death, by the executors or administrators of his or her estate or by any person or persons who acquire the Option by will or the laws of succession and distribution, but not beyond the otherwise applicable term of the Option.
- i. Disability of Optionee. If an Optionee ceases to be an Employee due to becoming totally and permanently disabled within the meaning of Section 22(e)(3) of the Code, any Option granted to the Optionee may be exercised to the extent it had vested at the time of cessation and, subject to the Plan, at any time within three (3) months after the Optionee's termination of employment, but not beyond the otherwise applicable term of the Option.
- j. Time of Granting Options. The date of grant of an Option shall for all purposes be on the date which the Administrator makes the determination to grant such Option, or such other date as is determined by the Administrator.

7. Option Exercise or Purchase Price, Consideration and Taxes.

- (a) Exercise or Purchase Price. The Administrator shall determine the exercise or purchase price in accordance with the Applicable Laws and/or pursuant to the Option Agreement to be executed between the Company and Optionee, if applicable or other relevant agreement between such parties.
- (b) Consideration. Subject to Applicable Laws, the consideration to be paid for the Shares to be issued upon exercise or purchase of an Option including the method of payment shall be determined by the Administrator. In addition to any other types of consideration the Administrator may determine, the Administrator is authorized to accept as consideration for Shares issued under the Plan the following:
 - i. cash;
 - ii. cheque;
 - iii. with respect to Options, payment through a broker-dealer sale and remittance procedure pursuant to which the Optionee (A) shall provide written instructions to a Company designated brokerage firm to effect the immediate sale of some or all of the purchased Shares and remit to the Company sufficient funds to cover the aggregate exercise price payable for the purchased Shares and (B) shall provide written directives to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction;
 - iv. cashless election; or
 - v. any combination of the foregoing methods of payment.

- (c) Taxes. No Shares shall be delivered under the Plan to any Optionee or other person until such Optionee or other person has made arrangements acceptable to the Administrator for the satisfaction of any national, provincial or local income and employment tax withholding obligations. Upon exercise of an Option the Company shall have the right, but not the obligation (except as required by applicable law), to withhold or collect from Optionee an amount sufficient to satisfy such tax obligations. The Optionee will be solely responsible for his/her own tax obligations.

8. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder.

- i. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator under the terms of the Plan and specified in the Option Agreement.
- ii. An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and when the Company receives full payment for the Shares with respect to which the Option is exercised, including, to the extent selected, use of the broker-dealer sale and remittance procedure to pay the purchase price as provided in Section 7(b)(iii).

9. Conditions Upon Issuance of Shares.

- (a) Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all Applicable Laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.
- (b) As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any Applicable Laws.

10. Adjustments upon Changes in Capitalization.

Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Option, and the number of Shares which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan, the exercise or purchase price of each such outstanding Option, the maximum number of Shares with respect to which Options may be granted to any Optionee in any fiscal year of the Company, as well as any other terms that the Administrator determines require adjustment shall be proportionately adjusted for (i) any increase or decrease in the number of issued Ordinary Shares resulting from a share split, reverse share split, share dividend, combination or reclassification of the Ordinary Shares, or similar transaction affecting the Shares, (ii) any other increase or decrease in the number of issued Ordinary

Shares effected without receipt of consideration by the Company, or (iii) as the Administrator may determine in its discretion, any other transaction with respect to Ordinary Shares including a corporate merger, consolidation, acquisition of property or equity, separation (including a spin-off or other distribution of shares or property), reorganization, liquidation (whether partial or complete) or any similar transaction; provided, however that conversion of any convertible securities of the Company shall not be deemed to have been “effected without receipt of consideration.” Such adjustment shall be made by the Administrator and its determination shall be final, binding and conclusive. Except as the Administrator determines, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number or price of Shares subject to an Option. In the event of a spin-off transaction, the Administrator may in its discretion make such adjustments and take such other action as it deems appropriate with respect to outstanding Options under the Plan, including but not limited to: (i) adjustments to the number and kind of shares, the exercise or purchase price per share and the vesting periods of outstanding Options, (ii) prohibit the exercise of Options during certain periods of time prior to the consummation of the spin-off transaction, or (iii) the substitution, exchange or grant of Options to purchase securities of the Subsidiary; provided that the Administrator shall not be obligated to make any such adjustments or take any such action hereunder.

11. Corporate Transactions and Changes in Control.

- (a) Termination of Option to Extent Not Assumed in Corporate Transaction. Effective upon the consummation of a Corporate Transaction, all outstanding Options under the Plan shall terminate; provided, however, that to extent any Options are assumed in connection with the Corporate Transaction (“Assumed”), such Options shall not terminate.
- (b) Acceleration of Option Upon Corporate Transaction or Change in Control.
 - i. Corporate Transaction. The Administrator may determine, in the event of a Corporate Transaction, for the portion of each Option that is neither Assumed nor Replaced, such portion of the Option shall automatically become fully vested and exercisable and be released from any repurchase or forfeiture rights (other than repurchase rights exercisable at Fair Market Value) for all of the Shares (or other consideration) at the time represented by such portion of the Option, immediately prior to the specified effective date of such Corporate Transaction, provided that the Optionee’s Continuous Service has not terminated prior to such date.
 - ii. Change in Control. The Administrator may determine, in the event of a Change in Control (other than a Change in Control which also is a Corporate Transaction), each Option which is at the time outstanding under the Plan automatically shall become fully vested and exercisable and be released from any repurchase or forfeiture rights (other than repurchase rights exercisable at Fair Market Value), immediately prior to the specified effective date of such Change in Control, for all of the Shares (or other consideration) at the time represented by such Option, provided that the Optionee’s Continuous Service has not terminated prior to such date.

12. Effective Date and Term of Plan.

The Plan shall become effective on the date of the Company's contemplated initial public offering is completed ("IPO"). It shall continue in effect for a term of ten (10) years unless sooner terminated or unless renewed for another period not to exceed ten (10) years pursuant to shareholder approval. Subject to Section 17, below, and Applicable Laws, Options may be granted under the Plan upon its becoming effective.

13. Amendment, Suspension or Termination of the Plan.

- (a) The Board may at any time amend, suspend or terminate the Plan; provided, however, that no such amendment shall be made without the approval of the Company's shareholders to the extent such approval is required by Applicable Laws, or if such amendment would change any of the provisions of Section 3(a), Section 4(b)(vi) or this Section 13(a).
- (b) No Option may be granted during any suspension of the Plan or after termination of the Plan.
- (c) No suspension or termination of the Plan (including termination of the Plan under Section 12 above) shall adversely affect any rights under Options already granted to an Optionee.

14. Reservation of Shares.

- (a) The Company, during the term of the Plan, will at all times reserve and keep available out of its authorized but unissued Shares, such number of Shares as shall be sufficient to satisfy the requirements of the Plan.
- (b) The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

15. No Effect on Terms of Employment/Consulting Relationship.

The Plan shall not confer upon any Optionee any right with respect to the Optionee's Continuous Service, nor shall it interfere in any way with his or her right or the right of the Company or any Related Entity to terminate the Optionee's Continuous Service at any time, with or without Cause, and with or without notice. The ability of the Company or any Related Entity to terminate the employment of an Optionee who is employed at will is in no way affected by its determination that the Optionee's Continuous Service has been terminated for Cause for the purposes of this Plan. For Cause shall have the meaning and conditions set forth under Termination clauses, where applicable, in each such Optionee's Appointment Letter with the Company.

16. No Effect on Retirement and Other Benefit Plans.

Except as specifically provided in a retirement or other benefit plan of the Company or a Related Entity, Options shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a Related Entity, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. The Plan is not a "Retirement Plan" or "Welfare Plan" under the Employee Retirement Income Security Act of 1974, as amended.

17. Shareholder and Trading Market Approval.

- (a) Subject to the Applicable Laws, including but not limited to Nasdaq Rule 5635(c), once this Plan is approved by the shareholders of the Company, the granting of individual Options hereunder will not require any further shareholder approvals, unless such approval is required under Applicable Laws.
- (b) If required by the Applicable Laws, no Options shall be granted unless and until the Company received Trading Market Approval of such Options and the Shares underlying such Options.

18. Unfunded Obligation.

Optionees shall have the status of general unsecured creditors of the Company. Any amounts payable to Optionees pursuant to the Plan shall be unfunded and unsecured obligations for all purposes. Neither the Company nor any Related Entity shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Optionee account shall not create or constitute a trust or fiduciary relationship between the Administrator, the Company or any Related Entity and an Optionee, or otherwise create any vested or beneficial interest in any Optionee or the Optionee's creditors in any assets of the Company or a Related Entity. The Optionees shall have no claim against the Company or any Related Entity for any changes in the value of any assets that may be invested or reinvested by the Company with respect to the Plan.

19. Shareholder Rights

Except as otherwise provided in this Plan an Optionee shall have none of the rights of a shareholder of the Company with respect to the Shares covered by any Option until the Optionee becomes the recorded owner of such Shares.

20. Construction.

Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

21. Information to Optionees.

Each Optionee shall be provided with such information regarding the Company as the Board or the Committee from time to time deems necessary or appropriate; provided, however, that each Optionee shall at all times be provided with such information as is required to be provided from time to time pursuant to applicable regulatory requirements.

22. Governing Law

The Plan and any Agreements under the Plan hereunder shall be administered, interpreted and enforced under the laws of the Cayman Islands without regard to conflicts of laws thereof.

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Second Supplemental Agreement for Advertising Space Leasing Agreement
(“Second Supplemental Agreement”)

Party A (Lessor): Shenzhen Kezhi Technology Co., Ltd.(“**Kezhi**”)

Number of Business License: 91440300MA5G10WT71

Party B (Lessee): Shenzhen Honghao Internet Technology Co. Ltd. (“**Honghao**”)

Number of Business License: 91440300MA5GANXX8H

All terms in this agreement, unless otherwise stated, its definition is the same as the definition in the Advertising Space Leasing Agreement executed by both parties on September 25, 2020.

Whereas:

1. Party A and Party B entered into an Advertising Space Leasing Agreement (“**Original Agreement**”) on September 25, 2020, and entered into a Supplemental Agreement for Advertising Space Leasing Agreement (“**First Supplemental Agreement**”) on November 20, 2020.
2. Party A and Party B confirm that the total amount of RMB¥440,000,000 has been paid to Party A’s bank account by bank transfer, and details are as follows:
 - (1) Leasing fee: RMB¥430,000,000 as the first installment of 20-year buyout rents for advertising space management rights and advertising publishing rights;
 - (2) Contract bonds: RMB¥10,000,000 as the contract bonds of the Original Agreement.
3. Affected by factors such as COVID-19, Party A and Party B intend to adjust the media business operation strategy under the Original Agreement and First Supplemental Agreement. To ensure Party B’s business operating results, starting from the execution date of this Second Supplemental Agreement, Party A and Party B no longer involve the transfer of advertising space management rights and advertising publishing rights, and further decide to transfer the above-mentioned leasing fees to loans.

To this end, Party A and Party B signed this Second Supplemental Agreement on March 30, 2021, through friendly negotiation.

(1) The leasing fee RMB¥440,000,000 paid by Party B pursuant to the Original Contract and the First Supplemental Agreement is hereby transferred to the loan made by Party B to Party A (the “**Loan**”). The period of Loan is six years, starting from the effective date of this Second Supplemental Agreement. Party A can repay the Loan in advance, but Party A shall notify Party B in writing five business days in advance.

(2) The annual interest rate for the Loan is five percent (5%). In the event that Party A repays the Loan on the day following the expiration of the loan period, Party A shall repay the principal and interest in the total amount RMB¥572,000,000. In the event that Party A repays the Loan in advance, the interest payable by the Party A shall be calculated by the principal of Loan and actual loan period.

(3) In the event that Party A fails to repay the principal and interest of the Loan, starting from the overdue date, the overdue payment interest shall be six percent (6%) per annum.

(4) Party A shall invest the Loan in three sectors, outdoor media, digital media, and real estate investment. Party A promises and guarantees that through its own business and resources, Party A will generate profits no less than RMB¥96,000,000 or equivalent assets value per year for Party B during the period of the Loan, which means that Party A shall generate profits no less than RMB¥572,000,000 or equivalent assets value during the period of the Loan. The value of equivalent assets shall be evaluated and determined by a legally qualified third-party asset appraisal company.

(5) In order for Party A to repay the Loan to Party B in accordance with this Second Supplemental Agreement and fulfill its commitment in Article 4, Party A promises that Nanjing Jinjiahu Culture Media Co., Ltd (“**Nanjing Jinjiahu**”) will generate no less than RMB¥30,000,000 profits or equivalent assets value each year for Party B pursuant to Party A’s contract with Nanjing Jinjiahu; Guangzhou Hongtan Commercial Real Estate Investment Partnership (limited partnership) (“**Guangzhou Hongtan**”) will generate no less than RMB¥48,000,000 profits or equivalent assets value each year for Party B through Party A’s contract with Guangzhou Hongtan; Party A will generate no less than RMB¥18,000,000 profits or equivalent assets value each year for Party B through Party A’s outdoor advertising business with Shenzhen Lianfake Network Technology Co., Ltd. For the payment batch, please refer to Attachment 4: Honghao payment batch.

(6) If the profits generated by Party B, Nanjing Jinjiahu and Guangzhou Hongtan can meet the promised standard for two consecutive years, the three companies (Kezhi, Nanjing Jinjiahu and Guangzhou Hongtan) agree to be acquired by Party B at a price-to-earnings ratio of 10 times, and the valuation of the targets shall be at least RMB¥960,000,000. The assets value of the acquisition shall be evaluated and determined by a legally qualified third-party asset appraisal company.

(7) Party A shall mortgage its own Huanghua pear assets worth RMB¥475,630,000 to Party B as a guarantee for repayment of the principal and interest of the Loan. The valuation report and mortgage agreement are attached hereto.

(8) In the event that Party A fails to enable Party B to receive a profit of more than RMB¥572,000,000 or equivalent asset value or company value before the expiration of the Loan period, Party A shall make up to Party B the remaining sum of Loan in cash, including principal and interest stipulated in Article 2 of this Second Supplemental Agreement.

(9) This Second Supplemental Agreement will take effect upon Party A and Party B have stamped it, and is binding to both parties. After this supplemental agreement becomes effective, it will become an integral part of the Original Agreement. In the event that the Original Agreement and the First Supplemental Agreement conflict with this Second Supplemental Agreement, this Second Supplemental Agreement shall prevail.

(10) In the event of a dispute arising from the execution and performance of this supplemental agreement, both parties shall resolve the dispute according to the dispute resolution mechanism set forth in the Original Agreement.

4. This Second Supplemental Agreement is made in two original copies and held by Party A and Party B.

[The Remainder of this page is intentionally left blank and stamp pages follow]

Party A: Shenzhen Kezhi Technology Co., Ltd. (Stamp)

Party B: Shenzhen Honghao Internet Technology Co. Ltd. (Stamp)

Date: March 30, 2021

Void Confirmation of Second Supplemental Agreement for Advertising Space Leasing Agreement

Party A (Lessor): Shenzhen Kezhi Technology Co., Ltd. (“**Kezhi**”)

Number of Business License: 91440300MA5G10WT71

Party B (Lessee): Shenzhen Honghao Internet Technology Co. Ltd. (“**Honghao**”)

Number of Business License: 91440300MA5GANXX8H

Regarding the Second Supplemental Agreement for Advertising Space Leasing Agreement attached hereto (“**Second Supplemental Agreement**”) executed by Party A and Party B on March 30, 2021, both parties hereby reach an agreement that the Second Supplemental Agreement is void, and it is not binding on both parties from the beginning of the execution. Neither party may claim any rights to the other party in relation to the Second Supplemental Agreement.

Party A and Party B further confirm that, once the Second Supplemental Agreement is void, both parties will re-execute a Second Supplemental Agreement for Advertising Space Leasing Agreement to replace the original Second Supplemental Agreement.

This Void Confirmation is made in two original copies and held by Party A and Party B.

Party A: Shenzhen Kezhi Technology Co., Ltd. (Stamp)

Party B: Shenzhen Honghao Internet Technology Co. Ltd. (Stamp)

Date: May 12, 2021

Second Supplemental Agreement for Advertising Space Leasing Agreement
(“Second Supplemental Agreement”)

Party A (Lessor): Shenzhen Kezhi Technology Co., Ltd.(“**Kezhi**”)

Number of Business License: 91440300MA5G10WT71

Party B (Lessee): Shenzhen Honghao Internet Technology Co. Ltd. (“**Honghao**”)

Number of Business License: 91440300MA5GANXX8H

All terms in this agreement, unless otherwise stated, its definition is the same as the definition in the Advertising Space Leasing Agreement executed by both parties on September 25, 2020.

Whereas:

1. Party A and Party B entered into an Advertising Space Leasing Agreement (“**Original Agreement**”) on September 25, 2020, and entered into a Supplemental Agreement for Advertising Space Leasing Agreement (“**First Supplemental Agreement**”) on November 20, 2020.
2. Party A and Party B confirm that the total amount of RMB¥444,320,000 has been paid to Party A’s bank account by bank transfer, and details are as follows:
 - (1) Leasing fee: RMB¥434,320,000 as the first installment of 20-year buyout rents for advertising space management rights and advertising publishing rights;
 - (2) Contract bonds: RMB¥10,000,000 as the contract bonds of the Original Agreement.
3. Affected by factors such as COVID-19, Party A and Party B intend to adjust the media business operation strategy under the Original Agreement and First Supplemental Agreement. To ensure Party B’s business operating results, starting from the execution date of this Second Supplemental Agreement, Party A and Party B no longer involve the transfer of advertising space management rights and advertising publishing rights, and further decide to transfer the above-mentioned paid leasing fees as the working capital of Party A.

To this end, Party A and Party B signed this Second Supplemental Agreement on May 12, 2021, through friendly negotiation.

- (1) The leasing fee RMB¥440,320,000 paid by Party B pursuant to the Original Contract and the First Supplemental Agreement is hereby transferred to the working capital of Party A (the “**Dedicated Fund**”). The use period of the Dedicated Fund is six years, starting from the effective date of this Second Supplemental Agreement. During the use period of the Dedicated Fund, Party A shall use the Dedicated Fund for the purposes and usages as stipulated in the Article 5 of this Second Supplemental Agreement to ensure that Party B can receive equivalent assets value.
 - (2) Party B may repay the Dedicated Fund in advance, but Party A shall notify Party B in writing five business days in advance and shall not affect the promise and guarantee made by Party A under the Article 6 of this Second Supplemental Agreement. In the event that Party A violates the provision of this Second Supplemental Agreement, Party B shall have the right to request Party A to return the principal and occupation fees of such working capital by notifying Party B in writing with five business days in advance.
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(3) Party A agrees and confirms that, during the period of the Dedicated Funds, Party A shall pay Party B the occupation fees of non-operating funds occupied by Party A. The occupation fees of such non-operating funds occupied by Party A shall be calculated at five percent (5%) of the principal of the Dedicated Funds. In the event that Party A returns the Dedicated Funds on the day following the expiration date of the use period of the Dedicated Funds, Party A shall return the principal and the occupation fees of non-operating funds occupied by Party A in the total amount RMB¥577,616,000. If Party A returns all or part of the Dedicated Funds in advance, the occupation fee shall be calculated based on the principal of Dedicated Funds and actual occupied period.

(4) If Party A fails to return the principal of Dedicated Funds and pay the occupation fees, starting from the date of overdue, the interest on the overdue payment will be calculated at six percent (6%) per annum.

5. Party A shall invest the Dedicated Funds in three sectors, outdoor media, digital media, and real estate investment. Party A promises and guarantees that through its own business and resources, Party A will generate no less than RMB¥96,000,000 equivalent assets value per year for Party B during the use period of the Dedicated Funds, which means that Party A shall generate no less than RMB¥577,600,000 equivalent assets value during the use period of the Dedicated Funds. The value of equivalent assets shall be evaluated and determined by a legally qualified third-party asset appraisal company.

(6) In order for Party A to return the Dedicated Funds to Party B in accordance with this Second Supplemental Agreement and fulfill its commitment in Article 6, Party A promises that Nanjing Jinjiahu Culture Media Co., Ltd (“**Nanjing Jinjiahu**”) will generate no less than RMB¥30,000,000 equivalent assets value each year for Party B through Party A’s business cooperation with Nanjing Jinjiahu; Guangzhou Hongtan Commercial Real Estate Investment Partnership (limited partnership) (“**Guangzhou Hongtan**”) will generate no less than RMB¥48,000,000 equivalent assets value each year for Party B through Party A’s business cooperation with Guangzhou Hongtan; and Party A will generate no less than RMB¥18,000,000 equivalent assets value each year for Party B through Party A’s outdoor advertising business. For the payment batch, please refer to Attachment 1: Honghao return batch.

(7) If Party A, Nanjing Jinjiahu and Guangzhou Hongtan can meet the promised standard as above for two consecutive years, Party B shall have priority right to acquire the above three companies based on the price-to-earnings ratio evaluated and determined by a legally qualified third-party asset appraisal company. The valuation of the target companies shall be evaluated and determined by a legally qualified third-party asset appraisal company.

(8) Party A shall mortgage its own Huanghua pear assets worth RMB¥475,630,000 to Party B as a guarantee for return of the principal and occupation fees of the Dedicated Funds. The valuation report and mortgage agreement are attached hereto.

In the event that Party A fails to enable Party B to obtain RMB¥57,760,000 or more equivalent asset value or company value before the expiration of use period of the Dedicated Funds, Party A shall make up to Party B the remaining sum of Dedicated Funds, including principal and occupation fees of Dedicated Funds as stipulated in Article 1 of this Second Supplemental Agreement, by cash.

(10). This Second Supplemental Agreement will take effect upon Party A and Party B stamp it, and is binding to both parties. After this Second Supplemental Agreement becomes effective, it will become an integral part of the Original Agreement. In the event that the Original Agreement and the First Supplemental Agreement conflict with this Second Supplemental Agreement, this Second Supplemental Agreement shall prevail.

(11). In the event of a dispute arising from the execution and performance of this Second Supplemental Agreement, both parties shall resolve the dispute according to the dispute resolution mechanism set forth in the Original Agreement.

4. This Second Supplemental Agreement is made in two original copies and held by Party A and Party B.

[The Remainder of this page is intentionally left blank and stamp pages follow]

Party A: Shenzhen Kezhi Technology Co., Ltd. (Stamp)

Party B: Shenzhen Honghao Internet Technology Co. Ltd. (Stamp)

Date: May 12, 2021

Attachment 1: Honghao return batch

Return Payment (RMB ¥ million)

Project	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2
Nanjing Jinjiahu		10	5	5	10	10	5	5
Guangzhou Hongtan	2	14	10	10	14	14	10	10
Party A outdoor advertising business		4.41	4.41	4.41	4.41	4.54	4.54	4.54

Project	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3
Nanjing Jinjiahu	10	10	5	5	10	10	5	5	10
Guangzhou Hongtan	14	14	10	10	14	14	10	10	14
Party A outdoor advertising business	4.54	4.65	4.65	4.65	4.65	4.69	4.69	4.69	4.69

Project	2025Q4	2026Q1	2026Q2	2026Q3	2026Q4	2027Q1	2027Q2	2027Q3	Total
Nanjing Jinjiahu	10	5	5	10	10	10	10	5.60	185.6
Guangzhou Hongtan	14	14	14	14	14	13	11		288
Party A outdoor advertising business	4.63	2.19	4	4	4	4	4	4	104

RMB 577.6 million

THE THIRD SUPPLEMENTAL AGREEMENT TO ADVERTISING SPACE LEASE CONTRACT

Party A (The Lessor): Shenzhen Kezhi Technology Co., Ltd.

Business license number: 91440300MA5G10WT71

Party B (Lessee): Shenzhen Honghao Hulian Technology Co., Ltd.

Business license number: 91440300MA5GANXX8H

All terms used in this Agreement, unless otherwise stated, have the same definitions as those in the Advertising Space Lease Contract signed between A and B on September 25, 2020 (the "Original Agreement").

Whereas:

I. Party A and Party B have entered into the Second Supplementary Agreement to the Original Agreement (hereinafter referred to as the "Second Supplementary Agreement") on May 12, 2021.

II. Pursuant to the Original Agreement and the Supplementary Agreement II, the leasing fee paid by Party B to Party A in RMB four hundred and forty thousand four million three hundred and twenty thousand yuan (RMB¥444,320,000) as working capital support to Party B (hereinafter referred to as "Dedicated Fund"), and the term of use of the Dedicated Fund was six years.

III. Party A shall invest the Dedicated Fund in the operation of outdoor media, digital media and real estate advertising platform. Party A promises and guarantees that, through its own business and resources, it will generate no less than RMB¥96 million or equivalent asset value to Party B every year during the use term of the Dedicated Fund. That is, during the term of use, Party B shall generate an equivalent asset value of no less than RMB¥577.6 million. The asset value shall be assessed and determined by a legally qualified third-party asset appraisal company.

IV. Pursuant to the Second Supplemental Agreement, In order to return the Dedicated Fund and meet its commitments under Article 6 of the Second Supplemental Agreement, Party A promises that, through its own business, and its business cooperation with Nanjing Jinjiahu Culture Media Co., Ltd. (hereinafter referred to as the “Nanjing Jinjiahu”) and Guangzhou Hongtan Commercial Real Estate Investment Partnership (Limited Partnership) (hereinafter referred to as “Guangzhou Hongtan”), Nanjing Jinjiahu will generate at least RMB30 million yuan of equivalent asset value for Party B and Guangzhou Hongtan will generate at least RMB¥48 million of equivalent asset value for Party B every year. Party A will generate at least RMB¥18 million yuan equivalent asset value for Party B every year through its outdoor advertising business.

1. Party A shall mortgage its own Huanghuali Assets worth RMB¥475,630,000 to Party B as a guarantee to repay the Dedicated Funds principal and occupancy fee. See the Attachment for Huanghuali Valuation Report and Mortgage Agreement.

Therefore, Party A and Party B, by amicable agreement, have entered this Third Supplemental Agreement to the Original Agreement (the “Third Supplemental Agreement”) on May 16, 2021.

I. Party B agrees and confirms that Party A shall cancel the business cooperation with Nanjing Jinjiahu and Guangzhou Hongtan, and shall not provide the working capital support for Nanjing Jinjiahu and Guangzhou Hongtan, nor shall Party B use the Dedicated Funds for its outdoor advertising business.

II. Party B requires Party A to promise and return RMB¥444,320,000 in cash or equivalent asset value within two years, and the fund occupancy expense shall be calculated at five percent (5%) of the principal of the Dedicated Funds, totally RMB¥488,752,000. Party A shall return RMB¥30,410,000 in cash or equivalent asset value in the first year and RMB¥458,342,000 in cash or equivalent asset value in the second year. The asset value shall be subject to the appraisal report issued by a legally-qualified independent third-party appraisal company.

III. Party A cancels the mortgage guarantee of Huanghuali Asset valuing RMB¥475,630,000, and with the agreement of both parties. The return of Dedicated Funds and its occupancy expense is guaranteed by Shenzhen Qinghaihui Construction Material Company, which guarantees that Party A is able to return RMB¥488,752,000 in cash or equivalent asset value. See Attachment for the guarantee agreement.

This Third Supplemental Agreement shall come into force upon being sealed by Party A and Party B and shall be binding upon both parties. This Third Supplemental Agreement shall form an integral part of the Original Contract after it comes into force. In case of conflict with the Original Contract and Second Supplementary Agreement, this Third Supplemental Agreement shall prevail.

Any dispute arising from the execution and performance of this Third Supplemental Agreement shall be settled by both parties in accordance with the dispute settlement method agreed in the original Contract.

IV. This Third Supplemental Agreement is made in duplicate, with Party A and Party B executing one copy each.

- The following is the sealed page of both parties without text -

Party A: Shenzhen Kezhi Technology Co., Ltd. (Seal)

Party B: Shenzhen Honghao Hulian Technology Co., Ltd. (Seal)

Date: May 16, 2021

**Certification by the Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Ban Lor, certify that:

1. I have reviewed this annual report on Form 20-F of Powerbridge Technologies Co., Ltd;
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: July 13, 2021

/s/ Ban Lor

Name: Ban Lor

Title: Co-Chief Executive Officer
(Principal Executive Officer)

Certification by the Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Stewart Lor, certify that:

1. I have reviewed this annual report on Form 20-F of Powerbridge Technologies Co., Ltd;
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: July 13, 2021

/s/ Stewart Lor

Name: Stewart Lor

Title: Chief Financial Officer

(Principal Financial Officer)

Certifications 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 Powerbridge Technologies Co., Ltd (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2020 of the Company fully complies, in all material respects, 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.

Dated: July 13, 2021

/s/ Ban Lor

Ban Lor
Co-Chief Executive Officer
(Principal Executive Officer)

Dated: July 13, 2021

/s/ Stewart Lor

Stewart Lor
Chief Financial Officer
(Principal Financial Officer)



Onestop Assurance PAC
10 Anson Road
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Singapore 079903
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Email: audit@onestop-ca.com
Website: www.onestop-ca.com

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form F-3 No. 333-253395) pertaining to offering, issuance and sales of Securities from time to time by Powerbridge Technologies Co., Ltd and its shareholders; and
2. Registration Statement (Form S-8 No. 333-253408) pertaining to Securities to be offered to employees in employee benefit plans;

of our report dated July 13, 2021 relating to the consolidated financial statements of Powerbridge Technologies Co., Ltd. as of December 31, 2020 and 2019 and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2020, 2019 and 2018. We also consent to the reference to our firm under the heading "Experts" in such Registration Statement.

/s/ Audit OneStop Assurance PAC

Singapore

July 13, 2021



5400 W Cedar Ave
Lakewood, CO 80226
Telephone: 303.953.1454
Fax: 303.945.7991

May 17, 2021

U.S. Securities and Exchange Commission
Office of the Chief Accountant
100 F Street NE
Washington, D.C. 20549

Re: Powerbridge Technologies Co., Ltd.

Ladies and Gentlemen:

We have read the statements in the Form 20-F dated May 17, 2021, of Powerbridge Technologies Co., Ltd. (the "Company") to be filed with the Securities and Exchange Commission and we agree with such statements therein as related to our firm. We have no basis to and, therefore, do not agree or disagree with the other statements made by the Company in the Form 20-F.

Sincerely,

/s/ B F Borgers CPA PC
Lakewood, Colorado
May 17, 2021

Powerbridge Technologies Co., Ltd.

Subsidiaries of the Registrant

Name of Subsidiary	Jurisdiction of Incorporation or Organization
Powerbridge Technologies Co., Limited	Hong Kong
Zhuhai Powerbridge Technologies Co., Ltd	People's Republic of China
Ningbo Powerbridge Pet Products Cross- border E-Commerce Servise Co., Ltd.	People's Republic of China
Shenzhen Honghao Internet Technology Co., Ltd.	People's Republic of China
Wuhan Honggang Technology Co., Ltd.	People's Republic of China
Chongqng Hongqiao Zhixin Technology Co., Ltd.	People's Republic of China
Ningbo Zhijing Tong Service Technology Co., Ltd.	People's Republic of China
Hongding Technology Hong Kong Co., Limited	Hong Kong
Shenzhen Hongding Hulian Technologies Co., Ltd.	People's Republic of China