



東方文化引領投資收藏路  
OCG NAVIGATES YOUR WAY INTO COLLECTIBLES

2022  
年度報告  
ANNUAL REPORT



中國國際文化藝術交易所  
INTERNATIONAL ASSETS AND EQUITY OF ARTWORKS EXCHANGE

A member of OCG NasdaqListed



HKDAEx  
香港數碼資產交易

A member of OCG NasdaqListed





# 東方文化

## Beliefs 集團理念

- If there is no professional platform to identify the authenticity and merit, collectibles are not valuable.
- If collectibles are non-tradable, capital markets are invisible.
- When innovation is vitality and mode is productivity, innovative mode determines competitiveness.
- NFT is the digital answer to collectibles.
- 沒有專業平台的鑒別真偽與優劣，收藏品不值錢。
- 不能流通的收藏品，資本市場看不見。
- 創新是生命力，模式是生產力，創新模式就是競爭力。
- NFT是收藏品在數字世界的解決方案。

## About Us 關於我們

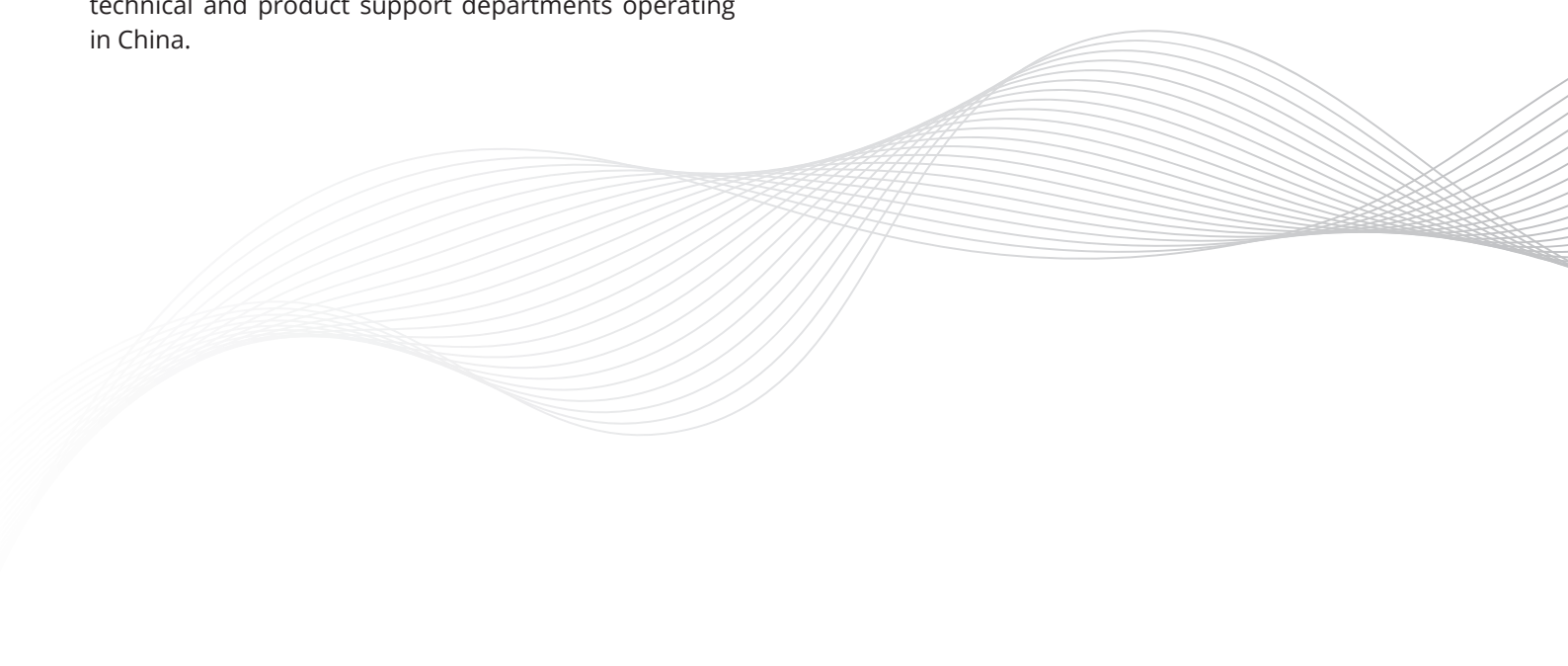
Oriental Culture Holding Limited is an online platform for trading of cultural and art collectibles, which allow collectors, artists and art dealers and owners to access a much bigger art trading market with a wider range of collectibles and artwork investors. Commenced operations in March 2018, we currently facilitate trading by both individual and institutional customers of all kinds of collectibles, artwork and commodities on our leading online platforms, China International Assets and Equity of Artworks Exchange Limited and HKDAEx Limited. We mandate to become the world's leading trading platform for collectibles and artwork assets, targeting the increasingly diversified and personalized asset allocation needs of the market. We are committed to building a convenient, transparent, fair and equitable circulation channel for physical assets, making it an essential part of asset allocation.

We provide online and offline integrated marketing, storage and technical maintenance service to our customers. As a comprehensive service company with rich cultural and art collection market operations and marketing, we provide online and offline supporting services for domestic and international art trading platforms. Our comprehensive services on our platforms include account opening, art investment education, market information, research, real-time customer support, and artwork warehousing services. With the solutions and services, traders trading collectibles and artworks, transactions facilitated and completed and total transaction value on our platform have recorded substantial growth since year 2018.

We also provide trading services to tea, wines & spirits, specialty agricultural products, precious and rare metals, bulk commodities and other tradable collectibles with high investment potential, through China International Assets and Equity of Artworks Exchange, HKDAEx and technical and product support departments operating in China.

東方文化控股有限公司是一家致力於成為全球領先的文化藝術收藏品交易及服務平台。我們著眼於滿足市場對日益多元化和個性化文化藝術收藏品的資產配置需求，旨在為文化藝術收藏品搭建便捷、透明、公正、公開的流通管道，使其成為資產配置的重要組成部分。通過我們的交易平台服務，收藏家、藝術家、交易商、投資者及藏品持有人都有機會參與到規模更大的交易市場，享受到更多元化的服務和更豐富的产品選擇。

集團透過旗下中國國際文化產權交易所、香港數碼資產交易中心和中國內地技術及產品支援部門為來自全球的藝術品、收藏品、茶葉名酒、農產品、大宗商品等具備投資和收藏屬性的商品提供高效的交易及其相關的推廣和技術支援服務。我們通過專有的客戶軟件和呼叫中心線上提供包括開戶、文化藝術投資教育、市場訊息、調研、即時客戶支援、文化藝術品倉儲服務等綜合性服務。自2018年開始運營至今，業務發展迅速，通過我們的解決方案和服務，平台交易額實現了大幅增長。



## Vision 集團願景

Be the world's leading online trading platform for cultural and art collectible assets

- Make it easy to trade non-standardized cultural and art collectible assets
- Add an alternative asset class to your portfolio asset allocation
- Give the cultural and art collectible asset management industry a space for free innovation
- Allow market participants to experience a richer selection

成為全球領先的文化藝術收藏品資產線上交易平台

- 讓非標準化文化藝術收藏品實物資產可以便捷流通
- 讓多元化的文化藝術收藏品資產類別加入資產配置
- 讓文化藝術收藏品資產管理行業有自由創新的空間
- 讓文化藝術收藏品市場參與者能體驗更豐富的選擇

## Mission 集團使命

Build an ecosystem serving the real economy with cultural and art collectible assets online trading as core business by taking innovation as the soul of the enterprise, adopting leverage on policies as investment philosophy, aiming at the niche markets, abide by professional ethics and professionalism, strive to meet the diversified needs of customers and actively create and accumulate wealth for clients.

以創新為企業靈魂，  
以順策而行為投資理念，  
以人無我有為經營目標，  
恪守職業道德和專業素養，  
努力滿足客戶的多元化需求，  
積極為客戶創造和積累財富，  
以文化藝術收藏品資產交易為宗旨，  
構建一套完整的產業鏈服務實體經濟。





## Competitive Edges 競爭優勢

### China Opportunities 中國機遇

#### We Adopt RMB as Clearing Currency to Grow with China

Starting from 1 July 2019, the Group's China International Assets and Equity of Artworks Exchange and HKDAEx fully uses offshore RMB as the quotation, trading and settlement currency for listed products to grasp the huge opportunities offered by China's RMB internationalization and One Belt One Road initiative as well as Hong Kong's offshore RMB centre construction.

#### 我們全面使用離岸人民幣結算融入中國的發展大局

自2019年7月1日起，集團旗下中國國際文化產權交易所及香港數碼資產交易中心全面使用離岸人民幣作為掛牌商品的報價、交易和結算貨幣，以配合中國人民幣國際化的戰略和一帶一路的倡議及香港離岸人民幣中心的建設。

### Hong Kong Advantages 香港優勢

#### We Unleash Hong Kong's Super-Connector Advantage to Connect China and the World

Under the "One Country, Two Systems" principle implemented in Hong Kong, the Central Government fully supports Hong Kong in maintaining prosperity and stability. Hong Kong as a Special Administrative Region of China enjoys the benefits of "One Country, Two Systems" on the one hand and as a well-known global financial centre enjoys plenty supply of global capital and professional on the other hand. Together with Hong Kong's geographic proximity to Mainland China and comprehensive and efficient linkage to other major commercial and financial centres, Hong Kong is a natural supper-connector to connect China and the world. We commit to continuing to unleash Hong Kong's advantage to provide global investors with diversified investment asset classes and channels to increase their investment return in a risk-adjusted manner.

#### 我們發揮香港的超級連繫人優勢連接中國與世界

香港地位獨特，既是中國的一個特別行政區，享有一國兩制的特殊政策，又是世界公認的金融中心，彙聚全球的資金和人才，一直是連接中國與世界的超級連繫人。集團將繼續發揮香港優勢，促進中國與國際金融市場的互聯互通，為全球客戶提供多元化的可投資資產類別，積極構建可自由流通的雙向投資管道，提升投資收益，分散投資風險。

## History 集團發展歷程

**2022**

Oriental Culture Announced its entry into the Metaverse Sector

東方文化控股有限公司  
宣佈進軍元宇宙

**2021**

Oriental Culture Holding Limited net profit exceeded US\$10 million

東方文化控股有限公司  
年度淨利潤超過1000萬美元

**2020**

Oriental Culture Holding Limited (OCG.US) listed on 15 December 2020, becoming the first Nasdaq listed cultural and art collectibles exchange group

2020年12月15日，東方文化控股有限公司 (OCG.US) 上市，成為美國納斯達克證券交易所首家上市的文化藝術收藏品交易所集團

**2019**

HKDAEx Limited commenced business, entering the platform trading of multi-assets

香港數碼資產交易中心有限公司開業，進軍多元資產平台交易市場

**2018**

China International Assets and Equity of Artworks Exchange Limited commenced business, entering the platform trading of coins and stamps

中國國際文化產權交易所有限公司開業，進軍錢幣郵票平台交易市場

## Our Services 我們的服務

### Offering and Trading of Collectibles and Artwork on Our Platforms

Offering and trading of cultural and art collectibles on our platforms involves a number of parties, namely, Original Owners, Offering Agents, and Traders.

### Market Information

We provide comprehensive market information to our customers, including real-time price quotes, technical indicators, relevant market news and macroeconomic data and news.

### Investor Education

We provide a set of educational programs designed to target customers which includes basic rules and processes of online cultural and art collectibles, fundamental analysis methods and technical analysis methods.

### Customer Support

The client software and the CRM system comprise our core technology infrastructure and enable us to move each key phase of our business operation online and most of our services are accessible through our client software, and we also have a dedicated team of customer service personnel that handles real-time customer inquiries about our software, market news and research reports and questions, via call, text message and online instant message.

### 掛牌及交易服務

我們平台為產品持有者、代理商和交易者，提供文化藝術收藏品的掛牌及交易服務

### 市場訊息

我們為客戶提供全面的市場訊息，包括即時價格報價、技術指標、相關市場新聞、宏觀經濟資料和資訊

### 投資者教育

我們為目標客戶提供整套教育方案，包括線上文化藝術收藏品的基本交易規則和流程，基本分析方法和技術分析方法

### 客戶支援

客戶軟件和CRM系統構成我們的核心技術基礎設施，使我們能夠將業務運營的每個關鍵階段在線運行，讓我們的大部分服務，都可以通過訪問客戶軟件完成。我們還擁有一支專門的客戶服務團隊，通過電話、短信和線上即時消息發佈，處理客戶對軟件、市場新聞、研究報告和問題的即時查詢



## Chairman's Statement 主席致辭

### Dear Shareholders:

"As the name suggests, Oriental Culture focuses on "Culture" in the "Orient". Oriental Culture may be one of the key beneficiaries with the blooming Chinese culture industry.

Starting from 2021, the market has been gripped by the concept of metaverse with numerous metaverse-themed projects and capital flooding in. When standards for metaverse hardware and software have not yet been fixed, content should be the king and therefore national-policy-supported cultural industry

is expected to be a key beneficiary. Hong Kong established a new bureau to coordinate the overall culture development and amended the copyright legislation to position itself as a pivot gateway helping Chinese culture go-global, making Chinese culture a winning racetrack with high certainty.

**With Metaverse as the THEME and Hong Kong as the Go-Global GATEWAY, Oriental Culture is running on the winning Chinese Culture racetrack."**

A handwritten signature in black ink, appearing to read 'Lewis Wan'.

Lewis Wan  
Chairman  
April 27, 2023





**尊敬的股東朋友：**

顧名思義，東方文化的業務發展圍繞著「東方」中的「文化」。東方文化可能是中國文化產業蓬勃發展的主要受益者之一。

從2021年開始，市場被元宇宙概念所佔據，大量元宇宙主題項目和資金湧入。當元宇宙的硬體和軟體標準尚未被市場所確立，元宇宙的內容將為王，因此，國家政策支持的文化產業有望成為主要受益者。香港剛成立了一個負責

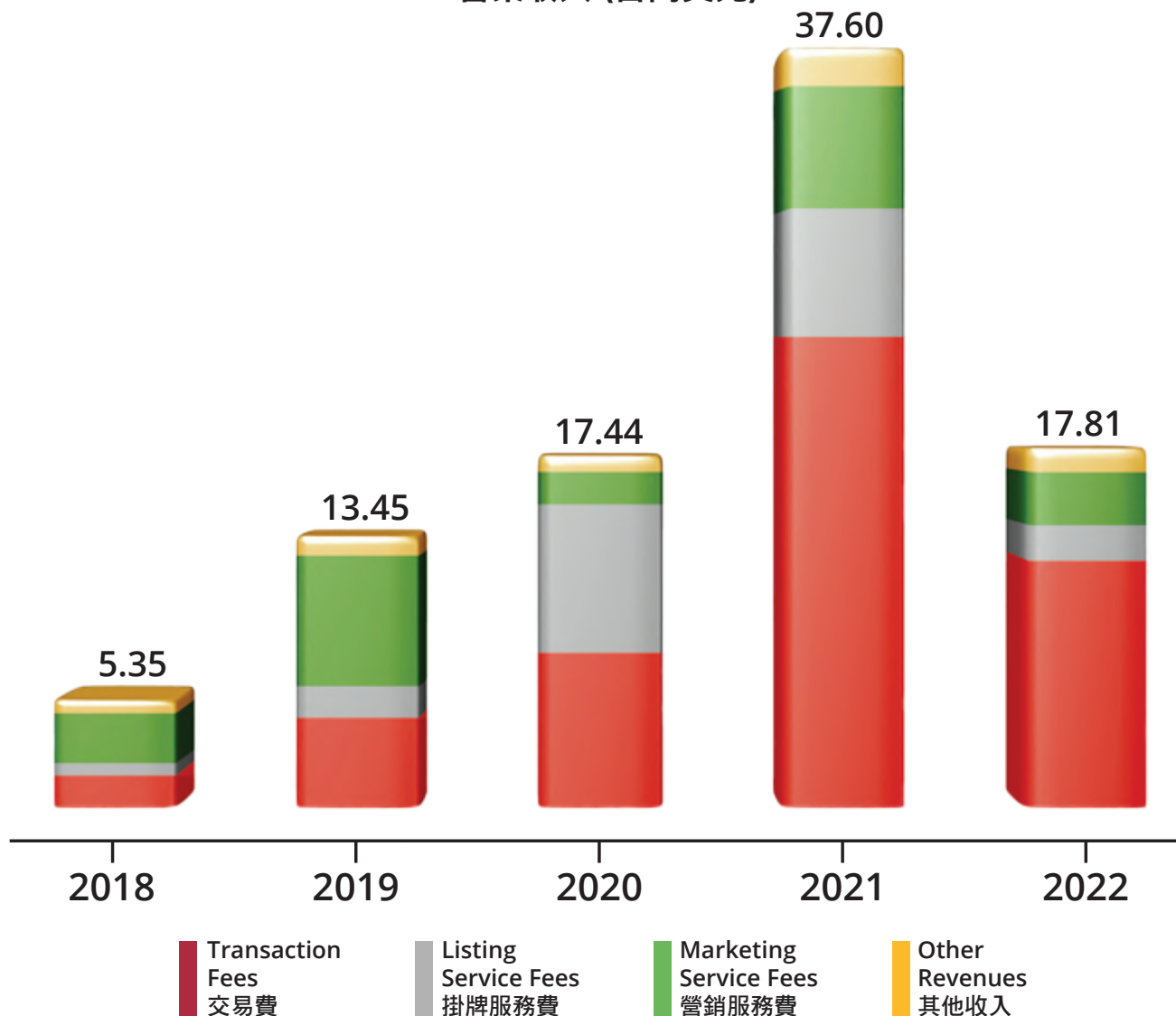
統籌整體文化發展的新事務局，並修訂了相關版權法例，將自身定位為推動中華文化走出去的樞紐門戶，讓中華文化產業成為具有高度確定性的制勝賽道。

**以元宇宙為題，以香港為通向世界的南大門，東方文化正在中華文化產業的勝利賽道上奔跑。**

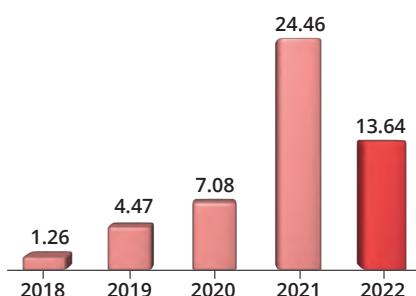
尹滿華  
主席

2023年4月27日

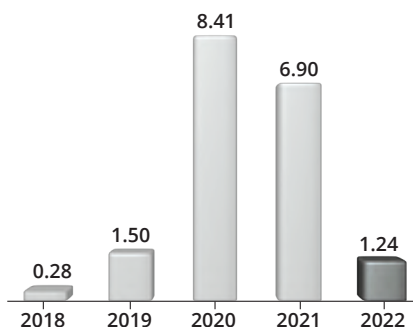
**Operating Revenues (US\$ Million)**  
**營業收入 (百萬美元)**



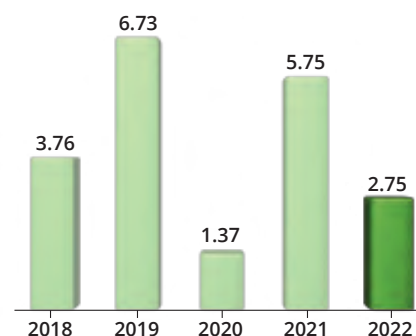
**Transaction Fees (US\$ Million)**  
**交易費 (百萬美元)**



**Listing Service Fees (US\$ Million)**  
**掛牌服務費 (百萬美元)**

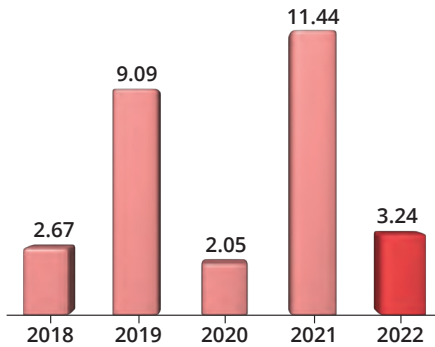


**Marketing Service Fees (US\$ Million)**  
**營銷服務費 (百萬美元)**

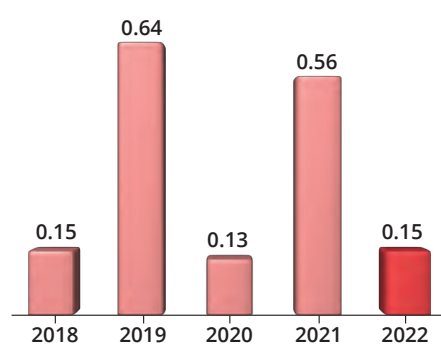


KEY OPERATING METRICS & SELECTED FINANCIAL DATA 關鍵運營指標和財務數據

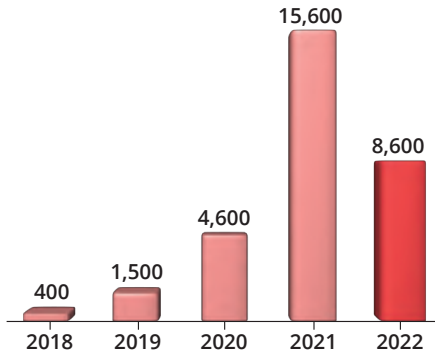
Net Income (US\$ Million)  
淨利潤 (百萬美元)



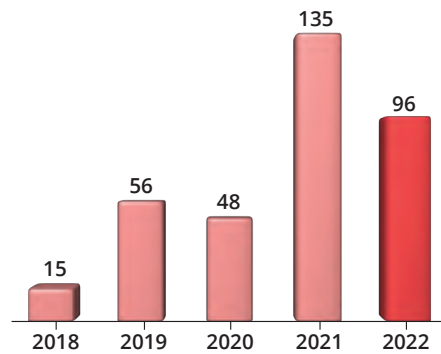
Earnings Per Share (US\$)  
每股淨收益 (美元)



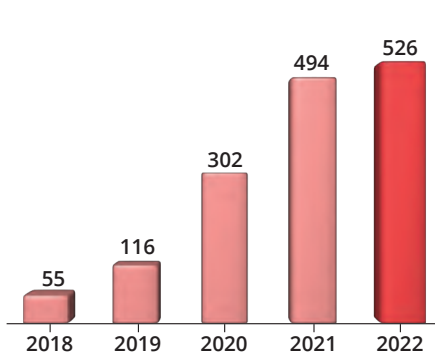
Total Transaction Value (US\$ Million)  
總成交額 (百萬美元)



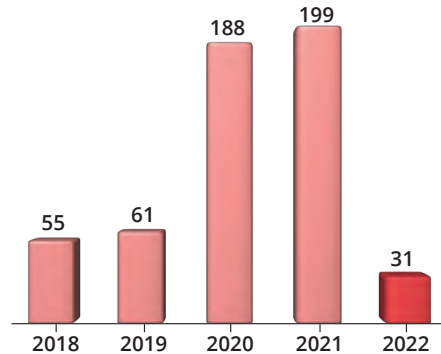
Number of Transactions (Million)  
交易數量 (百萬)



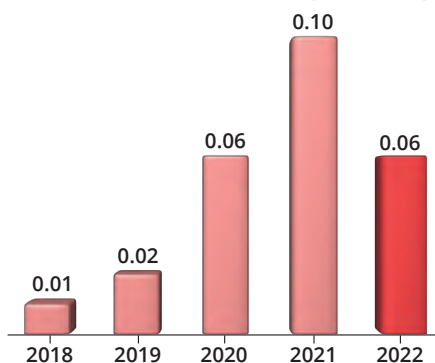
Total Number of Product  
產品總量



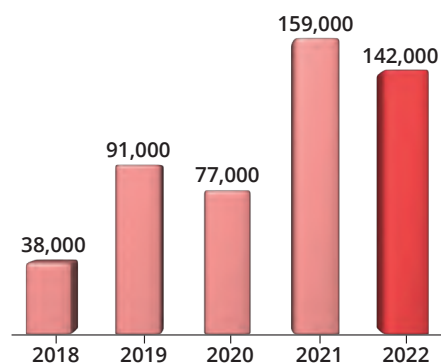
Number of New Product  
新品數量



Average Transaction Value per Trader (US\$ Million)  
每個交易者平均交易價 (百萬美元)



Number of Active Traders  
活躍交易者數量



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, 2022

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

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:

Commission file number: 001-39734

**Oriental Culture Holding, LTD.**

(Exact name of Registrant as Specified in its Charter)

**Cayman Islands**

(Jurisdiction of Incorporation or Organization)

**Room 1402, Richmake Commercial Building  
198-200 Queen's Road Central, Hong Kong**  
(Address of Principal Executive Offices)

**Yi Shao**

**Chief Executive Officer**

**Room 1402, Richmake Commercial Building  
198-200 Queen's Road Central, Hong Kong  
Telephone: (852) 2110-3909  
Email: ir@ocgroup.hk**

(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:

| <b>Title of each class</b>           | <b>Trading Symbol(s)</b> | <b>Name of each exchange on which registered</b> |
|--------------------------------------|--------------------------|--|
| Ordinary Shares, par value \$0.00005 | OCG                      | 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, 2022, there were 21,226,992 ordinary shares outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Emerging growth company

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

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.  Yes  No

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## TABLE OF CONTENTS

|   | <b>Page</b> |
|---|-------------|
| <a href="#">Introduction</a>  | ii          |
| <a href="#">Forward-looking Statements</a>  | iii         |
| <a href="#">PART I</a>  |             |
| Item 1. <a href="#">Identity of Directors, Senior Management and Advisers</a>                         | 1           |
| Item 2. <a href="#">Offer Statistics and Expected Timetable</a>                                       | 1           |
| Item 3. <a href="#">Key Information</a>   | 1           |
| Item 4. <a href="#">Information On The Company</a>  | 44          |
| Item 4A. <a href="#">Unresolved Staff Comments</a>  | 68          |
| Item 5. <a href="#">Operating And Financial Review And Prospects</a>                                  | 68          |
| Item 6. <a href="#">Directors, Senior Management And Employees</a>                                    | 83          |
| Item 7. <a href="#">Major Shareholders And Related Party Transactions</a>                             | 91          |
| Item 8. <a href="#">Financial Information</a>   | 94          |
| Item 9. <a href="#">The Offer And Listing</a>   | 94          |
| Item 10. <a href="#">Additional Information</a>   | 94          |
| Item 11. <a href="#">Quantitative And Qualitative Disclosures About Market Risk</a>                   | 106         |
| Item 12. <a href="#">Description Of Securities Other Than Equity Securities</a>                       | 107         |
| <a href="#">PART II</a>   |             |
| Item 13. <a href="#">Defaults, Dividend Arrearages And Delinquencies</a>                              | 108         |
| Item 14. <a href="#">Material Modifications To The Rights Of Security Holders And Use Of Proceeds</a> | 108         |
| Item 15. <a href="#">Controls And Procedures</a>  | 108         |
| Item 16A. <a href="#">Audit Committee Financial Expert</a>  | 110         |
| Item 16B. <a href="#">Code Of Ethics</a>  | 110         |
| Item 16C. <a href="#">Principal Accountant Fees and Services</a>                                      | 110         |
| Item 16D. <a href="#">Exemptions From The Listing Standards For Audit Committees</a>                  | 111         |
| Item 16E. <a href="#">Purchases Of Equity Securities By The Issuer And Affiliated Purchasers</a>      | 111         |
| Item 16F. <a href="#">Change In Registrant's Certifying Accountant</a>                                | 111         |
| Item 16G. <a href="#">Corporate Governance</a>  | 111         |
| Item 16H. <a href="#">Mine Safety Disclosure</a>  | 111         |
| Item 16I. <a href="#">Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.</a>        | 111         |
| <a href="#">PART III</a>  |             |
| Item 17. <a href="#">Financial Statements</a>   | 112         |
| Item 18. <a href="#">Financial Statements</a>   | 112         |
| Item 19. <a href="#">Exhibits</a>   | 112         |

## INTRODUCTION

In this annual report on Form 20-F, unless otherwise indicated, “we,” “us,” “our,” the “Company,” “Oriental Culture,” “Registrant” and “OCG” refer to Oriental Culture Holding LTD., a company incorporated in the Cayman Islands, its predecessor entities, its subsidiaries, variable interest entity and the subsidiaries of the consolidated variable interest entity.

Unless indicated otherwise, references to:

“China” or the “PRC” are to the People’s Republic of China, excluding, for the purpose of this report only, Hong Kong special administrative region, Macau special administrative region and Taiwan;

“EIT” are to PRC enterprise income tax;

“HK\$,” “HK dollars,” “HKD” are to the legal currency of the Hong Kong special administrative region;

“HKDAEx” are to HKDAEx Limited, a company incorporated under laws of Hong Kong and a wholly owned subsidiary of Oriental Culture Holding LTD;

“International Exchange” are to China International Assets and Equity of Artworks Exchange Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of Oriental Culture Holding LTD;

“Jiangsu Yanggu” are to Jiangsu Yanggu Culture Development Co., Ltd., a company incorporated under the laws of China, which is the variable interest entity that carries out our main business operations in China;

“MOFCOM” are to the Ministry of Commerce of the PRC;

“Ordinary Share(s)” are our ordinary shares with a par value of US\$0.00005 per share;

“Oriental Culture,” “we,” “us,” “our company,” and “our” are to Oriental Culture Holding LTD, a Cayman Islands exempted company with limited liability, and its subsidiary and consolidated entity;

“Oriental Culture BVI” are to Oriental Culture Development LTD, a company incorporated under the laws of British Virgin Islands and a wholly owned subsidiary of Oriental Culture Holding LTD;

“Oriental Culture HK” are to HK Oriental Culture Investment Development Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of Oriental Culture BVI;

“Nanjing Rongke” or “WFOE” are to Nanjing Rongke Business Consulting Service Co., Ltd. a company incorporated in China and a wholly-owned subsidiary of Oriental Culture HK;

“RMB” and “Renminbi” refer to the legal currency of China;

“SAFE” are to the State Administration of Foreign Exchange;

“US\$,” “U.S. dollars,” “\$” and “dollars” are to the legal currency of the United States;

“VIE” are to variable interest entity; and

Our business is primarily conducted in China and Hong Kong, an all of our revenues are received and denominated in RMB and Hong Kong Dollars. RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. This annual report contains translations of Renminbi and HK\$ amounts into U.S. dollars at specified rates solely for the convenience of the reader. We make no representation that the Renminbi, HK\$ or U.S. dollar amounts referred to in this report could have been or could be converted into U.S. dollars, HK\$ or Renminbi, as the case may be, at any particular rate or at all. On December 31, 2022, the exchange rate was RMB 6.9646 to \$1.00 which is the intermediate exchange rate announced by the People’s Bank of China and HK\$7.8015 to \$1.00 which is the unified exchange rate as quoted by the Federal Reserve.

We completed an initial public offering of our ordinary shares at an initial offering price of US\$4.00 per share on December 17, 2020. Our ordinary shares, par value US\$0.00005 per share, are traded on the Nasdaq Capital Market under the symbol “OCG.”

## FORWARD-LOOKING STATEMENTS

This report contains “forward-looking statements” for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 that represent our beliefs, projections and predictions about future events. Known and unknown risks, uncertainties and other factors, including those listed under “Risk Factors,” may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. All statements other than statements of historical fact are “forward-looking statements,” including any projections of earnings, revenue or other financial items, any statements of the plans, strategies and objectives of management for future operations, any statements concerning proposed new projects or other developments, any statements regarding future economic conditions or performance, any statements of management’s beliefs, goals, strategies, intentions and objectives, and any statements of assumptions underlying any of the foregoing. Words such as “may”, “will”, “should”, “could”, “would”, “predicts”, “potential”, “continue”, “expects”, “anticipates”, “future”, “intends”, “plans”, “believes”, “estimates” and similar expressions, as well as statements in the future tense, identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements relating to:

- our goals and strategies;
- our future business development, financial conditions and results of operations;
- the expected growth of the collectibles and artwork trading and related services marketplace market in Hong Kong and China;
- fluctuations in interest rates;
- our expectations as to collectability of the revenues from collectibles and artwork trades facilitated through our platform and our services to our customers;
- our expectations regarding demand for and market acceptance of our products and services;
- our expectations regarding our relationships with collectibles and artwork buyers and sellers;
- competition in our industry; and
- relevant government policies and regulations relating to our industry; and
- impact of COVID-19 on our business and financial conditions.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in “Risk Factors” and other sections in this report. You should thoroughly read this report and the documents that we refer to with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements.

This report contains certain data and information that we obtained from various government and private publications. Statistical data in these publications also include projections based on a number of assumptions. Our industry may not grow at the rate projected by market data, or at all. Failure of this market to grow at the projected rate may have a material and adverse effect on our business and the market price of our ordinary shares. In addition, the rapidly changing nature of the online art and collectible marketplace industry results in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market. Furthermore, if any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this report relate only to events or information as of the date on which the statements are made in this report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this report and the documents that we refer to in this report and any exhibits filed to this report, completely and with the understanding that our actual future results may be materially different from what we expect.



## 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

#### **Our Holding Company Structure and Contractual Arrangements with the Consolidated VIE and Its Individual Shareholders in China**

We are a Cayman Islands holding company without material operations and our business is conducted by our subsidiaries in Hong Kong and variable interest entity (“VIE”) and its subsidiaries in China and this structure involves unique risks to investors. We are not a Chinese operating company and that our business in China is conducted through contractual arrangements with the VIE and its subsidiaries. However, the VIE agreements have not been truly tested in the courts in China. Chinese regulatory authorities could disallow this structure, which would likely result in a material change in our operations and/or a material change in the value of the securities we are registering for sale, including that it could cause the value of such securities to significantly decline or become worthless. See “*Item 3. Key Information—D. Risk Factors— “If the Chinese government determines that the contractual arrangements through which we control the VIE do not comply with applicable regulations, our business could be adversely affected.” and “Uncertainties and quick change in the interpretation and enforcement of Chinese laws and regulations with little advance notice could result in a material and negative impact on our business operations, decrease the value of our securities and limit the legal protections available to you and us.”*”

There are legal and operational risks associated with being based in and having our operations in Hong Kong and China. Recently, the PRC government initiated a series of regulatory actions and statements to regulate business operations in China with little advance notice, including cracking down on illegal activities in the securities market, enhancing supervision over China-based companies listed overseas using variable interest entity structure, adopting new measures to extend the scope of cybersecurity reviews, and expanding the efforts in anti-monopoly enforcement. On July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly issued an announcement to crack down on illegal activities in the securities market and promote the high-quality development of the capital market, which, among other things, requires the relevant governmental authorities to strengthen cross-border oversight of law-enforcement and judicial cooperation, to enhance supervision over China-based companies listed overseas, and to establish and improve the system of extraterritorial application of the PRC securities laws. On December 28, 2021, Cybersecurity Review Measures were published by Cyberspace Administration of China or the CAC, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Public Security, Ministry of State Security, Ministry of Finance, Ministry of Commerce, People's Bank of China, State Administration of Radio and Television, China Securities Regulatory Commission ("CSRC"), State Secrecy Administration and State Cryptography Administration and became effective on February 15, 2022, which provides that, Critical Information Infrastructure Operators ("CIIOs") that purchase internet products and services and Online Platform Operators engaging in data processing activities that affect or may affect national security shall be subject to the cybersecurity review by the Cybersecurity Review Office. On November 14, 2021, CAC published the Administration Measures for Cyber Data Security (Draft for Public Comments), or the "Cyber Data Security Measure (Draft)", which requires cyberspace operators with personal information of more than 1 million users who want to list abroad to file a cybersecurity review with the Office of Cybersecurity Review. On April 2, 2022, the CSRC released the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), which provide that a domestic company that seeks to offer and list its securities in a overseas market shall strictly abide by applicable PRC laws and regulations, enhance legal awareness of keeping state secrets and strengthening archives administration, institute a sound confidentiality and archives administration system, and take necessary measures to fulfill confidentiality and archives administration obligations. On July 7, 2022, CAC promulgated the Measures for the Security Assessment of Data Cross-border Transfer, effective on September 1, 2022, which requires the data processors to apply for data cross-border security assessment coordinated by the CAC under the following circumstances: (i) any data processor transfers important data to overseas; (ii) any critical information infrastructure operator or data processor who processes personal information of over 1 million people provides personal information to overseas; (iii) any data processor who provides personal information to overseas and has already provided personal information of more than 100,000 people or sensitive personal information of more than 10,000 people to overseas since January 1st of the previous year; and (iv) other circumstances under which the data cross-border transfer security assessment is required as prescribed by the CAC. On February 17, 2023, the CSRC released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Enterprises (the "New Overseas Listing Rules") with five interpretive guidelines, which will take effect on March 31, 2023. The New Overseas Listing Rules require Chinese domestic enterprises to complete filings with relevant governmental authorities and report related information under certain circumstances, such as: a) an issuer making an application for initial public offering and listing in an overseas market; b) an issuer making an overseas securities offering after having been listed on an overseas market; c) a domestic company seeking an overseas direct or indirect listing of its assets through single or multiple acquisition(s), share swap, transfer of shares or other means. According to the Notice on Arrangements for Overseas Securities Offering and Listing by Domestic Enterprises, published by the CSRC on February 17, 2023, a company that (i) has already completed overseas listing or (ii) has already obtained the approval for the offering or listing from overseas securities regulators or exchanges but has not completed such offering or listing before effective date of the new rules and completes such offering or listing before September 30, 2023 will be considered as an existing listed company and is not required to make any filing until it conducts a new offering in the future. Furthermore, upon the occurrence of any of the material events specified below after an issuer has completed its offering and listed its securities on an overseas stock exchange, the issuer shall submit a report thereof to the CSRC within 3 working days after the occurrence and public disclosure of the event: (i) change of control; (ii) investigations or sanctions imposed by overseas securities regulatory agencies or other competent authorities; (iii) change of listing status or transfer of listing segment; or (iv) voluntary or mandatory delisting. As of the date of this report, these new laws and guidelines have not impacted the Company's ability to conduct its business, list and trade on a U.S. or other foreign exchange; however, there are uncertainties in the interpretation and enforcement of these new laws and guidelines, which could materially and adversely impact our business and financial outlook, may impact our ability to accept foreign investments, offer our securities to investors or continue to list on a U.S. or other foreign exchange, and could impact our ability to conduct our business. Any change in foreign investment regulations, and other policies in China or related enforcement actions by China government could result in a material change in our operations and the value of our securities and could significantly limit or completely hinder our ability to offer our securities to investors or cause the value of our securities to significantly decline or be worthless. The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. In accordance with the HFCA Act, trading in securities of any registrant on a national securities exchange or in the over-the-counter trading market in the United States may be prohibited if the PCAOB determines that it cannot inspect or fully investigate the registrant's auditor for three consecutive years beginning in 2021, and, as a result, an exchange may determine to delist the securities of such registrant. On December 29, 2022, a legislation entitled "Consolidated Appropriations Act, 2023" (the "Consolidated Appropriations Act") was signed into law by President Biden, which has shorten the Holding Foreign Companies Accountable Act's timeline for a potential trading prohibition from three years to two years, thus reducing the time period before our securities may be prohibited from trading or delisted if our auditor is unable to meet the PCAOB inspection requirement. The Company's auditor, Wei, Wei & Co., LLP is headquartered in the U.S. and the Public Company Accounting Oversight Board (United States) (the "PCAOB") currently has access to inspect the working papers of our auditor and our auditor is not subject to the determinations announced by the PCAOB on December 16, 2021, which determinations were vacated on December 15, 2022. The Holding Foreign Companies Accountable Act and related regulations currently does not affect the Company as the Company's auditor is subject to PCAOB's inspection and investigation.

## **Permissions Required from the PRC Authorities for Our Operations**

Jiangsu Yanggu and its subsidiaries are incorporated and operating in mainland China and they have received all required permissions from Chinese authorities to operate its current business in China, which are their business licenses. Other than the business licenses, the VIE and its subsidiaries are not required to obtain permit and approval from Chinese authorities to operate our business while the Company is subject to New Overseas Listing Rules for offering the securities to investors. We, our subsidiaries, or VIE and its subsidiaries are not covered by permissions requirements from the China Securities Regulatory Commission (CSRC), Cyberspace Administration of China (CAC) or any other governmental agency that is required to approve the VIE's business and operations. As the VIE and its subsidiaries provide marketing, warehouse storage and technical maintenance services in China, based on the advice of our PRC counsel Jiangsu Taikun Law Firm ("Taikun Law Firm"), we do not believe that we are a Critical Information Infrastructure Operator ("CIIO") or an Online Platform Operator as defined in Cybersecurity Review Measures published by Cyberspace Administration of China, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Public Security, Ministry of State Security, Ministry of Finance, Ministry of Commerce, People's Bank of China, State Administration of Radio and Television, China Securities Regulatory Commission, State Secrecy Administration and State Cryptography Administration on December 28, 2021 and became effective on February 15, 2022. As of the date of this report, we, our subsidiaries, the VIE and its subsidiaries (1) are not required to obtain permissions from any PRC authorities to issue our securities to foreign investors except for the filing requirement under New Overseas Listing Rules, (2) are not subject to permission requirements from China Securities Regulatory Commission (the "CSRC"), Cyberspace Administration of China ("CAC") or any other authority that is required to approve of the VIE's operations, and (3) have not received or were denied such permissions by any PRC authorities. Nevertheless, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the "Opinions on Severely Cracking Down on Illegal Securities Activities According to Law," or the Opinions, which were made available to the public on July 6, 2021. The Opinions emphasized the need to strengthen the administration over illegal securities activities, and the need to strengthen the supervision over overseas listings by Chinese companies. Given the current PRC regulatory environment, it is uncertain when and whether we, our PRC subsidiary or VIE and its subsidiaries, will be required to obtain permission from the PRC government to be listed on a U.S. exchange in the future, and even when such permission is obtained, whether it will be rescinded. If we, our subsidiaries, or the VIE and its subsidiaries do not receive or maintain such permissions or approvals, inadvertently conclude that such permissions or approvals are not required, or applicable laws, regulations, or interpretations change and we are required to obtain such permissions or approvals in the future, it could significantly limit or completely hinder our ability to offer or continue to offer our securities to investors and cause the value of our securities to significantly decline or become worthless.

## ***Dividend Distribution and Cash Transfer Between the Holding Company, Subsidiary and VIE.***

We are an online provider of collectibles and artwork e-commerce services and we facilitate trading by individual and institutional customers of all kinds of collectibles, artworks and certain commodities on our leading online platforms owned by our subsidiaries in Hong Kong, namely the China International Assets and Equity of Artworks Exchange Limited and HKDAEx Limited. We also provide online and offline integrated marketing, warehouse storage and technical maintenance services to our customers through the VIE and its subsidiaries in China.

Our PRC operating entities receive their revenues in RMB. Under our current corporate structure, to fund any cash and financing requirements we may have, the Company may rely on certain dividend payments from our subsidiaries in Hong Kong and WFOE in China. Our WFOE receives payments from Jiangsu Yanggu, pursuant to the VIE Agreements. WFOE may make distribution of such payments to Oriental Culture HK as dividends.

Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from State Administration of Foreign Exchange or SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiary, WFOE is able to pay dividends in foreign currencies to us without prior approval from SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulations, such as the overseas investment registrations by the shareholders of the Company who are PRC residents. Approval from or registration with appropriate government authorities is, however, required where the RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. For our Hong Kong subsidiaries, our subsidiary in British Virgin Islands and the holding company ("Non-PRC Entities"), there is no restrictions on foreign exchange for such entities and they are able to transfer cash among these entities, across borders and to US investors. Also, there is no restrictions and limitations on the abilities of Non-PRC Entities to distribute earnings from their businesses, including from subsidiaries to the parent company or from the holding company to the U.S. investors as well as the abilities to settle amounts owed.

We are a holding company, and we rely on dividends and other distributions on equity paid by our subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Current PRC regulations permit our WFOE to pay dividends to the Company only out of its accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, our subsidiaries, VIE and its subsidiaries in China are required to set aside at least 10% of their after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Each such entity in China is also required to further set aside a portion of its after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at the discretion of its board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation. In addition, the Enterprise Income Tax Law and its implementation rules provide that a withholding tax at a rate of 10% will be applicable to dividends payable by Chinese companies to non-PRC-resident enterprises unless reduced under treaties or arrangements between the PRC central government and the governments of other countries or regions where the non-PRC resident enterprises are tax resident. Pursuant to the tax agreement between mainland China and the Hong Kong Special Administrative Region, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise may be reduced to 5% from a standard rate of 10%. However, if the relevant tax authorities determine that our transactions or arrangements are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future. Accordingly, there is no assurance that the reduced 5% withholding rate will apply to dividends received by our Hong Kong subsidiary from our PRC subsidiaries. This withholding tax will reduce the amount of dividends we may receive from our PRC subsidiaries.

As of the date of this report, neither the WFOE nor any of our subsidiaries in Hong Kong has made any dividends or distributions to the Company, the Company has not made any dividends or distribution to its investors. We intend to keep any future earnings to re-invest in and finance the expansion of our business, and we do not anticipate that any cash dividends will be paid in the foreseeable future. Under the Cayman Islands law, a Cayman Islands company may pay a dividend on its shares out of either profit or share premium amount, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts due in the ordinary course of business. We currently do not have cash management policies and procedures in place that dictate how funds are transferred through our organization. Rather, the funds can be transferred in accordance with the applicable laws and regulations.

As of the date of this report, no dividends or distributions have been made between the holding company, its subsidiaries, and consolidated VIEs, or to investors including the U.S. investors. The holding company, its subsidiaries, and VIE do not have any plan to distribute dividend or settle amounts owed under the VIE Agreements in the foreseeable future. To the extent cash and/or assets in the business are in the PRC and/or Hong Kong or our PRC and/or Hong Kong entities, including HKDAEx, International Exchange, Oriental Culture HK, the VIE, and the WFOE, such funds and/or assets may not be available to fund operations or for other use outside of the PRC and/or Hong Kong due to interventions in or the imposition of restrictions and limitations on the ability of us or our subsidiaries by the PRC government to transfer cash and/or assets. The cash transfer among the holding company, its subsidiaries and VIE is typically transferred through payment for intercompany services or intercompany borrowing between holding company, subsidiaries and VIE. There are no tax consequences for the intercompany borrowings and the payment for intercompany services, except for the standard value added taxes and/or income taxes for the revenues and/or profits generated from such services.

**Selected Condensed Consolidated Financial Schedule of the Company and Its Subsidiaries and VIE**

Set forth below is selected consolidating statements of income and cash flows for the years ended December 31, 2022 and 2021 and selected balance sheet information as of December 31, 2022 and 2021 showing financial information for the Company (excluding the VIEs), the VIEs, eliminating entries and consolidated information.

**ORIENTAL CULTURE HOLDING LTD AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

|   | <u> Holding </u>     | <u> HK </u>           | <u> BVI </u>         | <u> Elimination </u> | <u> Total </u>      | <u> WFOE </u>       | <u> VIE </u>        | <u> Elimination </u>   | <u> Total </u>      | <u> Elimination </u>  | <u> Consolidated </u> |
|---|----------------------|-----------------------|----------------------|----------------------|---------------------|---------------------|---------------------|------------------------|---------------------|-----------------------|-----------------------|
|   |                      | <u> Subsidiaries </u> |                      |                      | <u> outside </u>    |                     |                     |                        | <u> inside </u>     |                       |                       |
|   |                      |                       |                      |                      | <u> PRC </u>        |                     |                     |                        | <u> PRC </u>        |                       |                       |
| <b>ASSETS</b>                                 |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
| <b>CURRENT ASSETS</b>                         |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
| Cash and cash equivalents                     | \$ 14,452,747        | \$ 35,299             |                      |                      | \$ 14,488,046       | \$ 817,659          | \$ 1,883,128        |                        | \$ 2,700,787        | \$                    | \$ 17,188,833         |
| Restricted cash                               |                      |                       |                      |                      |                     |                     | 11,796,388          |                        | 11,796,388          |                       | 11,796,388            |
| Short-term investment                         |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
| Restricted investment                         |                      |                       |                      |                      |                     |                     | 4,703,323           |                        | 4,703,323           |                       | 4,703,323             |
| Accounts receivable, net                      |                      | 207                   |                      |                      | 207                 |                     |                     |                        |                     |                       | 207                   |
| Accounts receivable, related party            |                      |                       |                      |                      |                     |                     | 29,311              |                        | 29,311              |                       | 29,311                |
| Other receivables and prepaid expenses        | 1,324,063            | 10,803                |                      |                      | 1,334,866           |                     | 3,107,080           |                        | 3,107,080           |                       | 4,441,946             |
| Deposit                                       |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
| Other receivable related party                |                      |                       |                      |                      |                     |                     | 3,421,345           |                        | 3,421,345           |                       | 3,421,345             |
| Other receivable - intercompany               | 3,224,949            | 1,000,000             |                      | (3,224,949)(d1)      | 1,000,000           | 182,959             | 9,300,687           |                        | 9,483,646           | (1,000,000)(d2)       |                       |
|   |                      |                       |                      |                      |                     |                     |                     |                        |                     | (9,000,690)(d3)       |                       |
|   |                      |                       |                      |                      |                     |                     |                     |                        |                     | (299,997)(d4)(d5)     |                       |
| Other receivable - VIE                        |                      | 100,189               |                      |                      | 100,189             | 40,619,835          |                     | (40,619,835)(b)        |                     |                       |                       |
| Escrow  | 600,000              |                       |                      |                      | 600,000             |                     |                     |                        |                     | (182,959)(d5)         | 600,000               |
| <b>Total current assets</b>                   | <b>19,601,759</b>    | <b>1,146,498</b>      |                      | <b>(3,224,949)</b>   | <b>17,523,308</b>   | <b>41,620,453</b>   | <b>34,241,262</b>   | <b>(40,619,835)</b>    | <b>35,241,880</b>   | <b>(10,583,835)</b>   | <b>42,181,353</b>     |
| <b>PROPERTY AND EQUIPMENT, NET</b>            |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
|   |                      | 5,937                 |                      |                      | 5,937               |                     | 9,417,776           |                        | 9,417,776           |                       | 9,423,713             |
| <b>OTHER ASSETS</b>                           |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
| Certificate deposit                           |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       | 34,345                |
| Right of use assets                           |                      | 34,345                |                      |                      |                     | 34,345              |                     |                        |                     |                       |                       |
| Escrow  |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
| Investment                                    |                      |                       |                      |                      |                     |                     | 932,552             |                        | 932,552             |                       | 932,552               |
| Intangible assets, net                        |                      | 740,697               |                      |                      | 740,697             |                     | 76,188              |                        | 76,188              |                       | 816,885               |
| Investment in subsidiaries                    | 39,653,486           |                       | 40,620,453           | (39,268,629)(a)      | 41,005,310          |                     |                     |                        |                     | (41,005,310)(c)       |                       |
| Other receivable - intercompany               |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
| <b>Total other assets</b>                     | <b>39,653,486</b>    | <b>775,042</b>        | <b>40,620,453</b>    | <b>(39,268,629)</b>  | <b>41,780,352</b>   |                     | <b>1,008,740</b>    |                        | <b>1,008,740</b>    | <b>(41,005,310)</b>   | <b>1,783,782</b>      |
| <b>Total assets</b>                           | <b>59,255,245</b>    | <b>\$ 1,927,477</b>   | <b>40,620,453</b>    | <b>(42,493,578)</b>  | <b>\$59,309,597</b> | <b>\$41,620,453</b> | <b>\$44,667,778</b> | <b>(40,619,835)(b)</b> | <b>\$45,668,396</b> | <b>\$(51,589,145)</b> | <b>\$ 53,388,848</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
| <b>CURRENT LIABILITIES</b>                    |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
| Accounts payable                              | 70,000               | \$ 103                |                      |                      | \$ 70,103           |                     | \$ 2,889,312        |                        | \$ 2,889,312        |                       | \$ 2,959,415          |
| Accounts payable - related parties            |                      |                       |                      |                      |                     |                     | 28,727              |                        | 28,727              |                       | 28,727                |
| Deferred revenue                              |                      |                       |                      |                      |                     |                     | 449,037             |                        | 449,037             |                       | 449,037               |
| Other payables and accrued liabilities        |                      | 11,770                |                      |                      | 11,770              |                     | 278,380             |                        | 278,380             |                       | 290,150               |
| Taxes payable                                 |                      |                       |                      |                      |                     |                     | 13,372              |                        | 13,372              |                       | 13,372                |
| Lease liability - Current                     |                      | 20,808                |                      |                      | 20,808              |                     |                     |                        |                     |                       | 20,808                |
| Other payable - intercompany                  |                      | 2,985,193             |                      | (2,985,193)(d1)      |                     | 1,000,000           | 389,115             |                        | 1,389,115           | (1,000,000)(d2)       |                       |
|   |                      |                       |                      |                      |                     |                     |                     |                        |                     | (178,116)(d5)         |                       |
|   |                      |                       |                      |                      |                     |                     |                     |                        |                     | (460,935)(d4)         |                       |
| Other payable - VIE                           | 9,569,397            | 249,936               |                      |                      | 9,819,333           |                     |                     |                        |                     | (9,569,397)(d3)       |                       |
| <b>Total current liabilities</b>              | <b>9,639,397</b>     | <b>3,267,810</b>      |                      | <b>(2,985,193)</b>   | <b>9,922,014</b>    | <b>1,000,000</b>    | <b>4,047,943</b>    |                        | <b>5,047,943</b>    | <b>(11,208,448)</b>   | <b>3,761,509</b>      |
| Lease liability - Non-current                 |                      | 11,491                |                      |                      | 11,491              |                     |                     |                        |                     |                       | 11,491                |
| <b>Total liabilities</b>                      | <b>9,639,397</b>     | <b>3,279,301</b>      |                      | <b>(2,985,193)</b>   | <b>9,933,505</b>    | <b>1,000,000</b>    | <b>4,047,943</b>    |                        | <b>5,047,943</b>    | <b>(11,208,448)</b>   | <b>3,773,000</b>      |
| <b>COMMITMENTS AND CONTINGENCIES</b>          |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
| <b>SHAREHOLDERS' EQUITY</b>                   |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
| Capital                                       | 22,350,828           | 1,495,505             |                      | (1,495,505)(a)       | 22,350,828          |                     | 113,299             | (113,299)(b)           |                     |                       | 22,350,828            |
| Subscription receivable                       |                      |                       |                      |                      |                     |                     |                     |                        |                     |                       |                       |
| Statutory reserves                            | 124,757              |                       |                      | (a)                  | 124,757             |                     | 124,757             | (124,757)(b)           |                     |                       | 124,757               |
| Retained earnings                             | 28,315,319           | (2,839,315)           | 42,078,998           | (39,239,683)(a)      | 28,315,319          | 42,078,998          | 42,087,312          | (42,087,312)(b)        | 42,078,998          | (42,078,998)(c)       | 28,315,319            |
| Accumulated other comprehensive income (loss) | (1,175,056)          | (8,014)               | (1,458,545)          | 1,226,803 (a)(d1)    | (1,414,812)         | (1,458,545)         | (1,705,533)         | 1,705,533 (b)          | (1,458,545)         | 1,698,301 (c)(d3-d5)  | (1,175,056)           |
| <b>Total shareholders' equity</b>             | <b>49,615,848</b>    | <b>(1,351,824)</b>    | <b>40,620,453</b>    | <b>(39,508,385)</b>  | <b>49,376,092</b>   | <b>40,620,453</b>   | <b>40,619,835</b>   | <b>(40,619,835)</b>    | <b>40,620,453</b>   | <b>(40,380,697)</b>   | <b>49,615,848</b>     |
| <b>Total liabilities and</b>                  | <b>\$ 59,255,245</b> | <b>\$ 1,927,477</b>   | <b>\$ 40,620,453</b> | <b>(42,493,578)</b>  | <b>\$59,309,597</b> | <b>\$41,620,453</b> | <b>\$44,667,778</b> | <b>(40,619,835)</b>    | <b>\$45,668,396</b> | <b>\$(51,589,145)</b> | <b>\$ 53,388,848</b>  |

- (a) To eliminate holding company's investment of subsidiaries outside PRC.
- (b) To eliminate receivable as result of contractual agreement from VIE with VIE's equity.
- (c) To eliminate holding company's investment of WFOE.
- (d) To eliminate intercompany balances:

|     | <u>Due from</u> | <u>Due to</u>   | <u>Amount</u> |  |
|-----|-----------------|-----------------|---------------|--|
| (1) | HK subsidiaries | Holding         | 3,224,949     | intercompany borrowing                               |
| (2) | WFOE            | HK subsidiaries | 1,000,000     | intercompany borrowing                               |
| (3) | Holding         | VIE             | 9,000,690     | Real estate deposit paid by VIE, refunded to Holding |
| (4) | HK subsidiaries | VIE             | 460,935       | Intercompany balance                                 |
| (5) | WFOE            | VIE             | 178,116       | Intercompany balance                                 |

ORIENTAL CULTURE HOLDING LTD AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2022

|                          | <b>Holding</b> | <b>HK Subsidiaries</b> | <b>BVI</b>   | <b>Elimination</b> | <b>Total outside PRC</b> | <b>WFOE</b>  | <b>VIE</b>    | <b>Elimination</b> | <b>Total inside PRC</b> | <b>Elimination</b> | <b>Consolidated</b> |
|--------------------------|----------------|------------------------|--------------|--------------------|--------------------------|--------------|---------------|--------------------|-------------------------|--------------------|---------------------|
| Operating revenues       | \$             |                        | \$           |                    | \$                       |              | \$ 17,813,254 | \$                 | \$ 17,813,254           | \$ (115)(c)        | \$ 17,813,139       |
| Cost of revenues         | (6,560)        | (30,429)               |              |                    | (36,989)                 |              | (959,470)     |                    | (959,470)               |                    | (996,459)           |
| Gross profit             | (6,560)        | (30,429)               |              |                    | (36,989)                 |              | 16,853,784    |                    | 16,853,784              | (115)              | 16,816,680          |
| Operating expenses       | (2,862,517)    | (1,239,660)            |              |                    | (4,102,177)              |              | (10,125,268)  |                    | (10,125,268)            | 115(c)             | (14,227,329)        |
| Income from operations   | (2,869,077)    | (1,270,089)            |              |                    | (4,139,166)              |              | 6,728,516     |                    | 6,728,516               |                    | 2,589,351           |
| Other income(expense)    | 59,758         | (176)                  |              |                    | 59,582                   | 618          | 590,947       |                    | 591,565                 |                    | 651,147             |
| Provision for income tax |                |                        |              |                    |                          |              | (4,812)       |                    | (4,812)                 |                    | (4,812)             |
| Income from VIE          |                |                        |              |                    |                          | 7,314,651    |               | (7,314,651)(b)     |                         |                    |                     |
| Income from subsidiaries | 6,045,005      |                        | 7,315,269    | (6,045,005)(a)     | 7,315,270                |              |               |                    |                         | (7,315,270)(d)     |                     |
| Net income               | \$ 3,235,686   | \$ (1,270,265)         | \$ 7,315,269 | \$ (6,045,005)     | \$ 3,235,686             | \$ 7,315,269 | \$ 7,314,651  | \$ (7,314,651)     | \$ 7,315,269            | \$ (7,315,270)     | \$ 3,235,686        |

- (a) to eliminate outside PRC subsidiaries income from Holding
- (b) to eliminate VIE income by WFOE
- (c) to eliminate intercompany revenue and expenses for services provided by the Company's HK subsidiary to its VIE.
- (d) to eliminate WFOE investment income by Holding

ORIENTAL CULTURE HOLDING LTD AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2022

|   | <b>Holding</b> | <b>HK Subsidiaries</b> | <b>BVI</b> | <b>WFOE</b>  | <b>VIE</b>    | <b>Total</b>   | <b>Elimination</b> | <b>Consolidated</b> |
|---|----------------|------------------------|------------|--------------|---------------|----------------|--------------------|---------------------|
| Net cash provided by (used in) operating activities | \$ (8,634,040) | \$ 21,641              | \$         | \$ (182,341) | \$ 7,583,355  | \$ (1,211,385) | \$                 | \$ (1,211,385)      |
| Net cash provided by (used in) investing activities |                | (6,408)                |            |              | 614,879       | 608,471        | \$                 | 608,471             |
| Net cash provided by (used in) financing activities | 1,000,000      |                        |            |              |               | 1,000,000      | \$                 | 1,000,000           |
| Effect of exchange rate                             |                | 3,050                  |            |              | (812,962)     | (809,912)      | \$                 | (809,912)           |
| Net increase in cash and cash equivalents           | (7,634,040)    | 18,283                 |            | (182,341)    | 7,385,272     | (412,826)      | \$                 | (412,826)           |
| CASH AND CASH EQUIVELENTS, beginning of year        | 22,086,787     | 17,015                 |            | 1,000,000    | 6,294,245     | 29,398,047     | \$                 | 29,398,047          |
| CASH AND CASH EQUIVELENTS, end of year              | \$ 14,452,747  | \$ 35,298              | \$         | \$ 817,659   | \$ 13,679,517 | \$ 28,985,221  | \$                 | \$ 28,985,221       |

3.A. [Reserved]

### 3.B. Capitalization and Indebtedness

Not Applicable.

### 3.C. Reasons For The Offer And Use Of Proceeds

Not Applicable.

### 3.D. Risk Factors

*An investment in our ordinary shares involves a high degree of risk. You should carefully consider the risks and uncertainties described below together with all other information contained in this annual report, including the matters discussed under the headings “Forward-Looking Statements” and “Operating and Financial Review and Prospects” before you decide to invest in our ordinary shares. We are a holding company with substantial operations in Hong Kong and China and are subject to a legal and regulatory environment that in many respects differs from the United States. If any of the following risks, or any other risks and uncertainties that are not presently foreseeable to us, actually occur, our business, financial condition, results of operations, liquidity and our future growth prospects could be materially and adversely affected.*

#### Summary of Risk Factors

An investment in our ordinary shares involves significant risks. Below is a summary of material risks we face, organized under relevant headings. These risks are discussed more fully in *Item 3. Key Information—D. Risk Factors*.

#### Risks Related to Our Business

- We have a limited operating history in an evolving market, which makes it difficult to evaluate our future prospects.
  - If we become subject to additional scrutiny, criticism and negative publicity involving U.S.-listed China-based companies, we may have to expend significant resources to investigate and resolve the matter which could harm our business operations, and our reputation and could result in a loss of your investment in our ordinary shares, especially if such matter cannot be addressed and resolved favorably.
  - Due to the nature of our business, valuable works of art are stored at our contracted facilities. Such works of art could be subject to damage or theft, which could have a material adverse effect on our operations, reputation and brand.
  - System and network limitations or failures could harm our business.
  - We face risks related to health epidemics and other outbreaks, including the coronavirus (COVID-19), which has caused and may continue to cause business disruptions, resulting in a material adverse impact to our financial condition and results of operations.
- Nan County Public Safety Bureau has frozen certain bank accounts of the subsidiaries of Jiangsu Yanggu due to the investigation of major
- shareholders of the Company and its related party Nanjing Jinwang which has and could continue to materially and negatively impact the business operations and financial results of the Company.

#### Risks Related to Our Corporate Structure

- If the PRC government deems that the contractual arrangements in relation to the consolidated variable interest entity do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.
- We rely on contractual arrangements with the VIE and the shareholders of the VIE for our business operations, which may not be as effective as direct ownership in providing operational control.
- Any failure by the consolidated VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.



### **Risks Related to Doing Business in China**

- If the Chinese government determines that the contractual arrangements through which we control the VIE do not comply with applicable regulations, our business could be adversely affected.
- Uncertainties and quick change in the interpretation and enforcement of Chinese laws and regulations with little advance notice could result in a material and negative impact our business operations, decrease the value of our securities and limit the legal protections available to you and us.
- Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.
- If any company incorporated in Hong Kong operating online collectibles and/or artwork trading platform is subject to PRC current or future laws and regulations regarding collectible or artwork trading businesses, our operations may be materially adversely affected due to the uncertainty whether we would be able to obtain approval from the provincial government and complete the filing with “Inter-Ministerial Joint Meetings of Clean-up and Corrective Actions of Various Trading Platforms” (the “Joint Meeting”) led by the China Securities Regulatory Commission (the “CSRC”).
- Regulatory bodies of the United States may be limited in their ability to conduct investigations or inspections of our operations in China.
- If we cannot effectively secure our network, customers’ personal information, which we collect through our online platform, it may be subject to leakage or theft, and if the regulators believe we have failed to fulfill our network security obligations, our online platform may be required to suspend operations or to make rectification, which may have a material adverse effect on our operations and financial results due to the large amount of our daily trading conducted online.
- The preferential tax treatment for Kashi Longrui and Kashi Dongfang is only for 5 years that has expired in December 2022 and the expiration of preferential tax treatment will materially and negatively affect our financial results.

### **Risks Related to Doing Business in Hong Kong**

- It will be difficult to acquire jurisdiction and enforce liabilities against our officers, directors and assets based in Hong Kong.
- We may have difficulty establishing adequate management, legal and financial controls in Hong Kong, which could impair our planning processes and make it difficult to provide accurate reports of our operating results.
- Our business may be affected by the Personal Data (Privacy) Ordinance of Hong Kong.

### **Risks Related to Our Ordinary Shares**

- Our ordinary shares may be thinly traded and you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.
- You may face difficulties in protecting your interests as a shareholder, as Cayman Islands law provides substantially less protection when compared to the laws of the United States and it may be difficult for a shareholder of ours to effect service of process or to enforce judgements obtained in the United States courts.
- We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.

## **Risks Related to Our Business**

*We have a limited operating history in an evolving market, which makes it difficult to evaluate our future prospects.*

We launched our Company in 2018 and have a limited operating history. The success of our business depends primarily on the number of collectibles and artwork products listed and traded on our platforms. Therefore, our ability to continue to attract customers to list, sell and buy collectibles and artwork products on our platform is critical to the continued success and growth of our business. This in turn will depend on several factors, including our ability to develop new products, services and markets, manage our growth while maintaining consistent and high-quality services, and make our platform more efficient and effective for our customers. During the outbreak of COVID-19 and government's efforts to contain the spread of the pandemic during the first half of 2020, our ability to accept, appraise, list new products and provide warehousing services for collectibles and artwork products as well as our marketing activities have been severely disrupted and hindered due to the office closure, quarantine, travel and transportation restrictions imposed by the government, which have caused material negative impact on our business and results of operations. In addition, we originally planned to expand our business internationally, especially in the United States in 2020, including to carry out a comprehensive brand promotion in the U.S. and cooperate with American collectible and artwork agencies to select Western-themed collectibles and artworks for listing on our platform. Due to the outbreak of the pandemic in China and the U.S., we delayed the implementation of our international market and business development plan as our management team is unable to travel to the U.S. visiting office spaces and meeting with our business partners. Most of the businesses in China have reopened and resumed since the second half of 2020. However, travel restrictions, quarantine requirements and/or temporary closure of office buildings and facilities were imposed by local governments due to the outbreak of Omicron variant in Hong Kong and many cities in China, including Shenzhen, Xi'an, Shanghai, Guangzhou, Nanjing, Nanchang and Taiyuan in 2022. In early December 2022, Chinese government eased the strict control measure for COVID-19, which has led to surge in increased infections and disruption in our business operations in December 2022 and January 2023. Any future impact of COVID-19 on our operation results will depend on, to a large extent, future developments and new information that may emerge regarding the duration and resurgence of COVID-19 variants and the actions taken by government authorities to contain COVID-19 or treat its impact, almost all of which are beyond our control.

As our business develops, or in response to competition, we may continue to introduce new services or make adjustments to our existing services, or make adjustments to our business model, including the development of NFT and Metaverse related business and services. In connection with the introduction of new services, or in response to general economic conditions, we may impose more stringent customer qualifications to ensure the quality of our customers, which may negatively affect the growth of our business. Any significant change to our business model may not achieve expected results and may have a material and adverse impact on our financial conditions and results of operations. It is therefore difficult to effectively assess our future prospects.

If we fail to attract potential clients and educate them about the value of our services, if the market for our marketplace does not develop as we expect, or if we fail to address the needs of our target market, our business and results of operations will be harmed.

*Our historical financial results may not be indicative of our future performance.*

Our business has achieved rapid growth since our inception. Our net revenues increased from nil for the period from March 2018 (when we commenced our operations) to approximately \$17.6 million for the year ended December 31, 2022 and approximately \$37.6 million for year ended December 31, 2021. However, our historical growth rate and the limited history of our operations make it difficult to evaluate our prospects. We may not be able to sustain our historically rapid growth or may not be able to grow our business at all. For example, our business, financial condition, and results of operations have been adversely affected by the outbreak of COVID-19 and actions taken by the government to contain the spread of the pandemic, especially in 2022. Also, our business operations have been materially and negatively impacted due to the frozen bank accounts by Nan County Public Safety Bureau. Most of the businesses in China have reopened and resumed since February 2023. However, travel restrictions, quarantine requirements and/or temporary closure of office buildings and facilities may be imposed by local governments for any resurgence of COVID-19.

The governmental authorities may issue new orders of office closures and/or travel and transportation restrictions in China due to the resurgence of the COVID-19 and outbreak of new variants, therefore, the results of operations for the year of 2022 are still uncertain and may be adversely impacted by any further outbreak or resurgence of the COVID-19 pandemic.

*Nan County Public Safety Bureau has frozen certain bank accounts of the subsidiaries of Jiangsu Yanggu due to the investigation of major shareholders of the Company and its related party Nanjing Jinwang which has and could continue to materially and negatively impact the business operations and financial results of the Company.*

On July 1, 2022, Mr. Huajun Gao and Mr. Aiming Kong, each an 11.5% shareholder of the Company, were detained by Nan County Public Safety Bureau of Yiyang City, Hunan Province, China. On July 26, 2022, Nan County People's Procuratorate approved the arrest of Mr. Gao and Mr. Kong with charge of illegal business operation of Nanjing Jinwang Art Purchase E-commerce Co., Ltd., a company controlled by Mr. Gao and Mr. Kong ("Nanjing Jinwang"). On July 1, 2022, the bank accounts of Nanjing Jinwang were frozen by Nan County Public Safety Bureau, including a trust account into which the customers of the Company deposit their security deposits in order to trade on the Company's two online trading platforms which the Company has entrusted Nanjing Jinwang for escrow.

Also, on July 1, 2022, Nan County Public Safety Bureau froze certain bank accounts of Kashi Longrui Business Management Services Co., Ltd. (“Kashi Longrui”), Kashi Dongfang Cangpin Culture Development Co., Ltd. (“Kashi Dongfang”) and Nanjing Yanyu Information Technology Co., Ltd. (“Nanjing Yanyu”), all subsidiaries of Jiangsu Yanggu Culture Development Co., Ltd., the variable interest entity of the Company in China (the “VIE”) because they, each had business relationship with Nanjing Jinwang.

Neither the Company nor its VIE or subsidiaries of its VIE has received any notification for enforcement charges from Nan County Public Safety Bureau, other than cash and short term investment in the frozen bank accounts with balances totaling approximately \$16.5 million and due from Nanjing Jinwang of approximately \$3.4 million relating to the Nanjing Jinwang investigation as described above as of December 31, 2022. Mr. Gao and Mr. Kong are not officers, directors or employees of the Company, its VIE or subsidiaries of the VIE. At the time of such accounts being frozen, the Company’s fund deposited with Nanjing Jinwang amounted to \$4 million. Currently the customers can freely transfer their deposits out of the trust account and can make their withdrawals based on their actual needs.

Due to the investigation of Nanjing Jinwang and frozen bank accounts, the business operations of the Company have been materially and negatively impacted as its customers experienced difficulties withdrawing their security deposits through online banking and had concerns regarding their deposited funds. The frozen accounts of the subsidiaries of the VIE have also negatively impacted cash flow for these companies although they have other bank accounts that operate normally for their daily business operations. The Company has taken remedial measures to assist its customers in withdrawing security deposits, such as through manual and in person application with the bank to transfer funds, so that they will have confidence in the Company and continue to list and trade art and collectible products on the online platforms of the Company. Currently the customers can freely transfer their deposits out of the trust account. The Company has also taken measures to reduce the cost and expenses for the subsidiaries of the VIE to respond to cash flow issues. However, there can be no assurance that these measures will restore customer confidence in using the Company’s services efficiently or at all and the Company cannot reasonably estimate when the bank accounts for the subsidiaries of the VIE will be unfrozen by the Nan County Public Safety Bureau.

The investigation of Mr. Gao, Mr. Kong and Nanjing Jinwang is ongoing. The Company has and will continue to communicate with Nan County Public Safety Bureau and other government authorities to obtain more information regarding the investigation and to attempt to unfreeze the bank accounts for the subsidiaries of the VIE. Although neither the Company, nor its VIE or subsidiaries of its VIE has received any notification from Nan County Public Safety Bureau indicating it is a part of the current investigation, we cannot assure you that they won’t be subject to the investigation in the future, if that happens, we might face penalties, negative publicity and loss of business which could which will materially and adversely affect our business operations and financial results.

In addition, if Mr. Gao and Mr. Kong are convicted for any crimes that are disruptive to the order of the socialist market economy and are considered as controlling persons for the domestic operating companies in China under the New Overseas Listing Rules, it could significantly limit or completely hinder our ability to offer or continue to offer our securities to investors and cause the value of our securities to significantly decline or become worthless.

***The global economy and the financial markets may negatively affect our business and clients, as well as the supply of and demand for works of art and collectables.***

Our business is affected by global, national and local economic conditions since the services we provide are discretionary and we depend, to a significant extent, upon a number of factors relating to discretionary consumer spending in China and Hong Kong. These factors include economic conditions and perceptions of such conditions by traders of collectibles and artwork, employment rates, the level of their disposable income, business conditions, interest rates, availability of credit and levels of taxation in regional and local markets. There can be no assurance that our services will not be adversely affected by changes in general economic conditions in China, Hong Kong and globally.

In March 2020, the World Health Organization declared the COVID-19 as a pandemic and the global economy has also been materially negatively affected. This crisis is like no other, the impact is large and there is continued uncertainty about the duration and intensity of its impact. It is extremely uncertain about China's and global growth forecast, which could seriously affect people's investment desires in China and internationally, including investment in artwork products and collectibles, which could negatively impact our business and results of operations.

The artwork and collectible markets may be influenced over time by the overall strength and stability of the global economy and the financial markets such as war in Ukraine and outbreak of COVID-19, although this correlation may not be immediately evident. In addition, political conditions and world or health events such as resurgence of COVID-19 may affect our business through their effect on the economy, as well as on the willingness of potential buyers and sellers to invest and sell art and collectibles in the wake of economic uncertainty.

***If we become subject to additional scrutiny, criticism and negative publicity involving U.S.-listed China-based companies, we may have to expend significant resources to investigate and resolve the matter which could harm our business operations, and our reputation and could result in a loss of your investment in our ordinary shares, especially if such matter cannot be addressed and resolved favorably.***

Recently, U.S. public companies that have substantially all of their operations in China have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in some cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stock of many U.S.-listed China-based companies has decreased in value and, in some cases, has become virtually worthless. Many of these companies have been subject to shareholder lawsuits and SEC enforcement actions and have conducted internal and external investigations into the allegations. It is not clear what effect this sector-wide scrutiny, criticism and negative publicity will have on us and our business. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our Company. This situation may be a major distraction to our management. If such allegations are not proven to be groundless, our business operations will be severely hindered and your investment in our ordinary shares could be rendered worthless.

***The demands for art and collectibles are unpredictable, which may cause significant variability in our results of operations.***

The demand for art is influenced not only by overall economic conditions, but also by changing trends in the art market as to which collecting categories and artists are most sought after and by the preferences of individual collectors. These conditions and trends are difficult to predict and may adversely impact our ability to choose the categories for listing or advertising, potentially causing significant variability in our results of operations from period to period.

***A decline in trading volumes will decrease our trading revenues.***

Trading volumes are directly affected by economic, political and market conditions, broad trends in business and finance, unforeseen market closures or other disruptions in trading such as office and warehouse closure and transportation restrictions imposed by the government due to the COVID-19, which could cause the lack of artwork products and collectibles being listed on our platform for trading, the level and volatility of interest rates, inflation, changes in price of collectibles and artwork and the overall level of investor confidence. In recent years, trading volumes across our markets have fluctuated depending on market conditions and other factors beyond our control. Because a significant percentage of our revenues are tied directly to the trading volumes on our markets, it is likely that a general decline in trading volumes would lower revenues and may adversely affect our operating results. Declines in trading volumes may also impact our market share or pricing structures and adversely affect our business and financial condition.

***Due to the nature of our business, valuable works of art are stored at our contracted facilities. Such works of art could be subject to damage or theft, which could have a material adverse effect on our operations, reputation and brand.***

Valuable works of art are stored at our facilities. Although we maintain security measures at our premises, valuable collectibles and artwork may be subject to damage or theft. The damage or theft of valuable property despite these security measures could have a material adverse impact on our business and reputation.

***System and network limitations or failures could harm our business.***

Our businesses depend on the integrity and performance of the technology, computer and communications systems supporting them. If our systems cannot expand to cope with increased demand or otherwise fail to perform, we could experience unanticipated disruptions in service, slower response times and delays in the introduction of new services. These consequences could result in financial losses and decreased customer service and satisfaction. If trading volumes increase unexpectedly or other unanticipated events occur, we may need to expand and upgrade our technology, transaction processing systems and network infrastructure. We do not know whether we will be able to accurately project the rate, timing or cost of any increases, or expand and upgrade our systems and infrastructure to accommodate any increases in a timely manner.

***The success of our business depends on our ability to market and advertise the services we provide effectively.***

Our ability to establish effective marketing campaigns is the key to our success. Our advertisements promote our corporate image and our services. If we are unable to increase awareness of our brand, the benefits of using our trading platform to invest in collectibles and artwork, and that such use of our platform is secure, we may not be able to attract new traders. Our marketing activities were disrupted due to travel restrictions and public gathering bans for large conferences and marketing events imposed by the government due to COVID-19 during the outbreak of COVID-19 and they might face similar disruptions if there is a resurgence of COVID-19. Our marketing activities may not be successful in promoting our services or in retaining and increasing our trader base. We cannot assure you that our marketing programs will be adequate to support our future growth, which may result in a material adverse effect on our results of operations.

***If we do not compete effectively, our results of operations could be harmed.***

The art e-commerce industry is highly fragmented and competitive with relatively low entry barriers. We compete primarily on the basis of our technology, comprehensive customer service and brand recognition. Our competitors may compete with us in the following ways:

- provide services that are similar to ours, or that are more attractive to customers than ours;
- provide products and services we do not offer;
- offer aggressive rebates to gain market share and to promote their businesses;
- adapt at a faster rate to market conditions, new technologies and customer demands;
- offer better, faster and more reliable technology; and
- market, promote and provide their services more effectively.

Although we do not compete against other trading service providers solely based on prices, if our competitors offer their services at lower prices, we may be forced to provide aggressive discounts or rebates to our customers and our commission and fees may decrease. Reduction in commissions and fees without a commensurate reduction in expenses would lower our profitability.

In addition, there are over 10 art e-commerce platforms operating in Hong Kong, through which individual customers can open accounts and trade all kinds of artworks on those exchanges. Certain Internet companies also launched art e-commerce trading services.

Some of these competitors may have greater financial resources or a larger customer base than we do, and if we fail to compete effectively, our market position, business prospects and results of operations would be adversely affected.

The art e-commerce market is highly competitive and many traditional art galleries and auction houses may provide a platform for artwork owners to sell their collections. However, their trading model is substantially different from ours. As of December 31, 2022, there were over 10 active art e-commerce platforms operating nationwide in China. The trading service providers compete with each other for customers and trading volume based on factors including brand, technology, research and customer services.

Although some of our competitors may have greater financial resources or larger customer bases than we do, we believe that our proprietary technology platform, our comprehensive customer services and strong brand recognition in the industry, will enable us to compete effectively in the fast evolving art e-commerce trading industry in Hong Kong and PRC.

Our competitors operate with different business models, have different cost structures or participate selectively in different market segments. They may ultimately prove more successful or more adaptable to new regulatory, technological and other developments. Many of our current and potential competitors have significantly more financial, technical, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their service offerings. Our competitors may also have longer operating histories, a more extensive client base, greater brand recognition and brand loyalty and broader partner relationships than us. Additionally, a current or potential competitor may acquire one or more of our existing competitors or form a strategic alliance with one or more of our competitors. Our competitors may be better at developing new products, offering more attractive terms or lower fees, responding faster to new technologies and undertaking more extensive and effective marketing campaigns. In response to competition and in order to grow or maintain the volume of our business, we may have to charge lower fees, which could materially and adversely affect our business and results of operations. If we are unable to compete with such companies and meet the need for innovation in our industry, the demand for our services and products could stagnate or substantially decline, we could experience reduced revenues or our marketplace could fail to achieve or maintain more widespread market acceptance, any of which could harm our business and results of operations.

***Our annual and interim results may fluctuate significantly and may not fully reflect the underlying performance of our business.***

Our annual and interim results of operations, including the levels of our net revenues, expenses, net income (loss) and other key metrics, may vary significantly in the future due to a variety of factors, some of which are outside of our control, and period-to-period comparisons of our operating results may not be meaningful, especially given our limited operating history. Accordingly, the results for any one period are not necessarily an indication of future performance. Fluctuations in annual or interim results may adversely affect the market price of our ordinary shares. Factors that may cause fluctuations in our financial results include:

- our ability to attract new clients and retain existing clients;
- changes in our mix of services and introduction of new services;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations and infrastructure;
- our decision to manage client volume growth during the period;
- the impact of competitors or competitive products and services;

- increases in our costs and expenses that we may incur to grow and expand our operations and to remain competitive;
- network outages or security breaches;
- changes in the legal or regulatory environment or proceedings, including with respect to security, privacy, or enforcement by government regulators, including fines, orders or consent decrees;
- general economic, industry and market conditions, including changes in Chinese or global business or macroeconomic conditions; and
- the timing of expenses related to the development or acquisition of technologies or businesses.
- health epidemics or pandemics, such as the coronavirus outbreak (COVID-19) and government's action to contain the spread of the pandemic.

***Despite our marketing efforts, we may not be able to promote and maintain our brand in an effective and cost-efficient way and our business and results of operations may be harmed accordingly.***

We believe that effectively developing and maintaining awareness of our brand is critical to attracting new and retaining existing clients. Successful promotion of our brand and our ability to attract quality clients depends largely on the effectiveness of our marketing efforts and the success of the channels we use to promote our services. Our efforts to build our brand have caused us to incur marketing and advertising expenses in the amount of approximately \$0.5 million in 2022 and \$1.1 million in 2021, respectively. It is likely that our future marketing efforts will require us to incur significant additional expenses as we expand our business. These efforts may not result in increased revenues in the immediate future or at all and, even if they do, any increases in revenues may not offset the expenses incurred. If we fail to successfully promote and maintain our brand while incurring substantial expenses, our results of operations and financial condition would be adversely affected, which may impair our ability to grow our business.

***Fraudulent activity in our marketplace could negatively impact our operating results, brand and reputation and cause the use of our services to decrease.***

We are subject to the risk of fraudulent activity both in our marketplace and associated with traders and third parties handling their information. Our resources, technologies and fraud detection tools may be insufficient to accurately detect and prevent fraud. Increases in fraudulent activity, either in our marketplace or associated with participants of our marketplace, could negatively impact our brand and reputation, reduce the volume of transactions facilitated through our platform and lead us to take additional steps to reduce fraud risk, which could increase our costs. High profile fraudulent activity could even lead to regulatory intervention, and may divert our management's attention and cause us to incur additional expenses and costs. Although we have not experienced any material business or reputational harm as a result of fraudulent activities in the past, we cannot rule out the possibility that any of the foregoing may occur, causing harm to our business or reputation in the future. If any of the foregoing were to occur, our results of operations and financial condition could be materially and adversely affected.

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

We regard our trademarks, domain names, know-how, proprietary technologies and similar intellectual property as critical to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality and non-compete agreements with our employees and others, to protect our proprietary rights. We cannot assure you that any of our intellectual property rights will not be challenged, invalidated, circumvented or misappropriated, or such intellectual property will be sufficient to provide us with competitive advantages. In addition, because of the rapid pace of technological change, parts of our business rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties on reasonable terms, or at all.

It is often difficult to register, maintain and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality, invention assignment and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Preventing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. To the extent that our employees or consultants use intellectual property owned by others in their work for us, disputes may arise as to the rights in related know-how and inventions. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

***Our annual effective income tax rate can change significantly as a result of a combination of changes in our foreign earnings and other factors, including changes in tax laws or changes made by regulatory authorities.***

Our consolidated effective income tax rate is equal to our total income tax expense (benefit) as a percentage of total book income (loss) before tax. Losses in one jurisdiction may not be used to offset profits in other jurisdictions and may cause an increase in our tax rate. Changes in statutory income tax rates and laws, as well as initiation of tax audits by local and foreign authorities, could impact the amount of income tax liability and income taxes we are required to pay. In addition, any fluctuation in the earnings (or losses) of the jurisdictions and assumptions used in the calculation of income taxes could have a significant effect on our consolidated effective income tax rate. Furthermore, our effective tax rate could increase if we are unable to generate sufficient future taxable income in certain jurisdictions, or if we are otherwise required to increase our valuation allowances against our deferred tax assets.

***We are subject to taxation in multiple jurisdictions. As a result, any adverse development in the tax laws of any of these jurisdictions or any disagreement with our tax positions could have a material adverse effect on our business, consolidated financial condition or results of operations.***

We are subject to taxation in, and to the tax laws and regulations of, multiple jurisdictions, particularly in the People's Republic of China and Hong Kong. In addition, tax authorities in any applicable jurisdiction, may disagree with the positions we have taken or intend to take regarding the tax treatment or characterization of any of our transactions. In the event any applicable tax authorities effectively sustained their positions which are different from our tax treatment of any of our transactions, it could have a significant adverse impact on our business, consolidated results of our operations as well as consolidated financial condition.

***We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.***

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, patents, copyrights, know-how or other intellectual property rights held by third parties. We may be from time to time in the future subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be third-party trademarks, patents, copyrights, know-how or other intellectual property rights that are infringed by our products, services or other aspects of our business without our awareness. Holders of such intellectual property rights may seek to enforce such intellectual property rights against us in China, the United States or other jurisdictions. If any third-party infringement claims are brought against us, we may be forced to divert management's time and other resources from our business and operations to defend against these claims, regardless of their merits.

Additionally, the application and interpretation of China's intellectual property laws and the procedures and standards for granting trademarks, patents, copyrights, know-how or other intellectual property rights in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we were found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. As a result, our business and results of operations may be materially and adversely affected.



*From time to time we may evaluate and potentially consummate strategic investments or acquisitions, which could require significant management attention, disrupt our business and adversely affect our financial results.*

We may evaluate and consider strategic investments, combinations, acquisitions or alliances to further increase the value of our marketplace and better serve our clients. These transactions could be material to our financial condition and results of operations if consummated. If we are able to identify an appropriate business opportunity, we may not be able to successfully consummate the transaction and, even if we do consummate such a transaction, we may be unable to obtain the benefits or avoid the difficulties and risks of such transaction.

Strategic investments or acquisitions will involve risks commonly encountered in business relationships, including:

- difficulties in assimilating and integrating the operations, personnel, systems, data, technologies, products and services of the acquired business;
- inability of the acquired technologies, products or businesses to achieve expected levels of revenue, profitability, productivity or other benefits;
- difficulties in retaining, training, motivating and integrating key personnel;
- diversion of management's time and resources from our normal daily operations;
- difficulties in successfully incorporating licensed or acquired technology and rights into our service offerings to customers;
- difficulties in maintaining uniform standards, controls, procedures and policies within the combined organizations;
- difficulties in retaining relationships with clients, employees and suppliers of the acquired business;
- risks of entering markets in which we have limited or no prior experience;
- regulatory risks, including remaining in good standing with existing regulatory bodies or receiving any necessary pre-closing or post-closing approvals, as well as being subject to new regulators with oversight over an acquired business;
- assumption of contractual obligations that contain terms that are not beneficial to us, require us to license or waive intellectual property rights or increase our risk for liability;
- failure to successfully further develop the acquired technology;
- liability for activities of the acquired business before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities;
- potential disruptions to our ongoing businesses; and
- unexpected costs and unknown risks and liabilities associated with strategic investments or acquisitions.

We may not make any investments or acquisitions, or any future investments or acquisitions may not be successful, may not benefit our business strategy, may not generate sufficient revenues to offset the associated acquisition costs or may not otherwise result in the intended benefits. In addition, we cannot assure you that any future investment in or acquisition of new businesses or technology will lead to the successful development of new or enhanced products and services or that any new or enhanced products and services, if developed, will achieve market acceptance or prove to be profitable.

***Our business depends on the continued efforts of our senior management. If one or more of our key executives were unable or unwilling to continue in their present positions, our business may be severely disrupted.***

Our business operations depend on the continued services of our senior management, particularly the executive officers named in this report. While we have the ability to provide different incentives to our management, we cannot assure you that we can continue to retain their services. If one or more of our key executives were unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, our future growth may be constrained, our business may be severely disrupted and our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain qualified personnel. In addition, although we have entered into confidentiality and non-competition agreements with our management, there is no assurance that any member of our management team will not join our competitors or form a competing business. If any dispute arises between our current or former officers and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or Hong Kong, or we may be unable to enforce them at all.

***We have engaged in transactions with related parties, and such transactions present possible conflicts of interest that could have an adverse effect on our business and results of operations.***

We have entered into a number of transactions with related parties, including our shareholders, directors and executive officers. For example, we have entered into several transactions with Nanjing Culture and Artwork Property Exchange Co., Ltd., Jinling Cultural Property Rights Exchange Co., Ltd. and Nanjing Jinwang Art Purchase E-commerce Co., Ltd., which are controlled or owned by Mr. Huajun Gao and/or Mr. Aimin Kong, each is a 11.5% beneficial shareholder of the Company. We also entered into advertising contract with Kashi Jinwang Art Purchase E-commerce Co., Ltd., as online advertising service provider to promoting our collectibles and artworks. For the year ended December 31, 2022, our related parties accounts payable, other payables, net revenues, cost of revenues, selling and marketing, and general and administrative expenses accounted for 0.0%, 1.1%, 0.9%, 30.5%, 0.6% and 3.7% of our total accounts payable, other payables, net revenues, cost of revenues, selling and marketing, and general and administrative expenses, respectively. For the year ended December 31, 2021, our related parties accounts payable, other payables, net revenues, cost of revenues, selling and marketing, and general and administrative expenses accounted for 0.0%, 0.0%, 0.6%, 30.1%, 2.3% and 2.7% of our total accounts payable, other payables, net revenues, cost of revenues, selling and marketing, and general and administrative expenses, respectively. See “Item 7.B. Related Party Transactions.” We may in the future enter into additional transactions with entities in which members of our board of directors and other related parties hold ownership interests.

Transactions with the entities in which related parties hold ownership interests present potential for conflicts of interest, as the interests of these entities and their shareholders may not align with the interests of the Company and our shareholders with respect to the negotiation of, and certain other matters related to, our lease and technology services to such entities. Conflicts of interest may also arise in connection with the exercise of contractual remedies under these transactions, such as the treatment of events of default.

Currently, our board of directors has authorized the audit committee to review and approve all related party transaction. We rely on the laws of Cayman Islands, which provide that directors owe a duty of care and a duty of loyalty to our Company. Nevertheless, we may have achieved more favorable terms if such transactions had not been entered into with related parties and these transactions, individually or in the aggregate, may have an adverse effect on our business and results of operations or may result in government enforcement actions or other litigation.

***The relative lack of public company experience of our management team may put us at a competitive disadvantage.***

Our management team lacks public company experience, which could impair our ability to comply with legal and regulatory requirements such as those imposed by the Sarbanes-Oxley Act of 2002, (“Sarbanes-Oxley”). Our senior management does not have much experience managing a publicly-traded company. Such responsibilities include complying with federal securities laws and making required disclosures on a timely basis. Our senior management may be unable to implement programs and policies in an effective and timely manner or that adequately respond to the increased legal, regulatory and reporting requirements associated with being a publicly traded company. Our failure to comply with all applicable requirements could lead to the imposition of fines and penalties, distract our management from attending to the management and growth of our business, result in a loss of investor confidence in our financial reports and have an adverse effect on our business and stock price.

***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. 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. 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. We might not identify one or more material weaknesses in our internal controls in connection with evaluating our compliance with Section 404 of the Sarbanes-Oxley Act. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, we need to expend significant resources and provide significant management oversight. Implementing any appropriate changes to our internal controls may require specific compliance training of our directors and employees, entail substantial costs in order to modify our existing accounting systems, take a significant period of time to complete and divert management's attention from other business concerns. These changes may not, however, be effective in achieving and maintaining the adequacy of our internal control.

If we are unable to conclude that we have effective internal controls over financial reporting, 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, we may be subject to investigation or sanctions by the SEC and our ordinary shares may not be able to remain listed on the Nasdaq Capital Market.

***Competition for employees is intense, and we may not be able to attract and retain the qualified and skilled employees needed to support our business.***

We believe our success depends on the efforts and talent of our employees, including risk management, information technology, financial and marketing personnel. Our future success depends on our continued ability to attract, develop, motivate and retain qualified and skilled employees. Competition for highly skilled marketing, real estate, technical, risk management and financial personnel is extremely intense. We may not be able to hire and retain these personnel at compensation levels consistent with our existing compensation and salary structure. Some of the companies with which we compete for experienced employees have greater resources than we have and may be able to offer more attractive terms of employment.

In addition, we invest significant time and expense in training our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring and training their replacements, and the quality of our products and services could diminish, resulting in a material adverse effect to our business.

***Increases in labor costs in the PRC may adversely affect our business and results of operations.***

The economy in China has experienced increases in inflation and labor costs in recent years. As a result, average wages in the PRC are expected to continue to increase. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pension, housing funds, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The relevant government agencies may examine whether an employer has made adequate payments to the statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to control our labor costs or pass on these increased labor costs to our users by increasing the fees of our services, our financial condition and results of operations may be adversely affected.

*If we cannot maintain our corporate culture as we grow, we could lose the innovation, collaboration and focus that contribute to our business.*

We believe that a critical component of our success is our corporate culture, which we believe fosters innovation, encourages teamwork and cultivates creativity. As we develop the infrastructure of a public company and continue to grow, we may find it difficult to maintain these valuable aspects of our corporate culture. Any failure to preserve our culture could negatively impact our future success, including our ability to attract and retain employees, encourage innovation and teamwork and effectively focus on and pursue our corporate objectives.

*We do not have any business insurance coverage.*

Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies in more developed economies. Currently, we do not have any business liability or disruption insurance to cover our operations. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured business disruptions may result in our incurring substantial costs and the diversion of resources, which could have an adverse effect on our results of operations and financial condition.

*We face risks related to health epidemics and other outbreaks, including the coronavirus (COVID-19), which has caused and may continue to cause business disruptions, resulting in a material, adverse impact to our financial condition and results of operations.*

In recent years, there have been outbreaks of epidemics in various countries, including China. Recently, there was an outbreak of a novel strain of coronavirus (COVID-19) in China, which has spread rapidly to many parts of the world, including Hong Kong and the U.S. In March 2020, the World Health Organization declared the COVID-19 a pandemic. The pandemic has resulted in quarantines, travel restrictions, and the temporary closure of office buildings and facilities in China and in the U.S.

Our results of operations have been materially adversely affected by the outbreak of COVID-19. During the outbreak of COVID-19 and government's efforts to contain the spread of the pandemic, our ability to accept, appraise, list new products and provide warehousing services for collectibles and artwork products as well as our marketing activities have been severely disrupted and hindered due to the office closure, travel and transportation restrictions imposed by the government during the first half of 2020, which have caused a material negative impact on our business and results of operations in 2020. Most of the businesses in China have reopened and resumed since the second half of 2020. However, travel restrictions, quarantine requirements and/or temporary closure of office buildings and facilities were imposed by local governments due to the outbreak of Omicron variant in Hong Kong and many cities in China, including Shenzhen, Xi'an, Shanghai, Guangzhou, Nanjing, Nanchang and Taiyuan in 2022. In early December 2022, Chinese government eased the strict control measure for COVID-19, which has led to surge in increased infections and disruption in our business operations in December 2022 and January 2023. The government authorities may issue new orders of office closure, travel and transportation restrictions due to the resurgence of COVID-19 and new variants. Any potential impact to our results will depend on, to a large extent, future developments and new information that may emerge regarding the duration and severity of COVID-19 and the actions taken by governmental authorities and other entities to contain COVID-19 or treat its impact, almost all of which are beyond our control. Potential impacts include, but are not limited to, the following:

- temporary closure of offices and warehouse, travel restrictions, cancellation of marketing and promotion activities and in person meetings or suspension of transportation of collectibles and artworks between our customers and our warehouse, which may materially adversely affect our financial condition and operating results;
- our customers that are negatively impacted by the outbreak of COVID-19 may reduce their budgets to market or invest in collectibles and artwork, which may materially adversely impact our revenue;
- our customers may require additional time to pay us or fail to pay us at all, which could significantly increase our accounts receivable and require us to record additional allowances for doubtful accounts. We have provided and may continue to provide significant incentives to existing and potential customers, which may in turn materially adversely affect our financial condition and operating results;
- the operations of our business partners, such as appraisal firms and express delivery companies have been and could continue to be negatively impacted by the further outbreak or resurgence of COVID-19, which may negatively impact our services to our customers, or result in loss of customers or disruption of our business, which may in turn materially adversely affect our financial condition and operating results;
- many of our customers and business partners are individuals and small and medium-sized enterprises (SMEs), which may not have strong cash flows or be well capitalized, and may be vulnerable to a pandemic outbreak and slowing macroeconomic conditions. If the SMEs that we work with cannot weather the COVID-19 and the resulting economic impact, or cannot resume business as usual after a prolonged outbreak or resurgence of COVID-19, our revenues and business operations may be materially and adversely impacted;
- the global stock markets have experienced, and may continue to experience, significant decline or volatility from the COVID-19 outbreak, which could materially adversely affect our stock price; and

The situation remains highly uncertain for any further outbreak or resurgence of the COVID-19 and new variants. It is therefore difficult for the Company to estimate the impact on our business or operating results that might be adversely affected by any further outbreak or resurgence of COVID-19 and new variants. Potential impact to our results of operations will also depend on future developments and new information that may emerge regarding COVID-19 and the actions taken by governmental authorities and other entities to contain COVID-19 and/or mitigate its impact, almost all of which are beyond our control.

In general, our business could be materially adversely affected by the effects of epidemics or pandemic, including, but not limited to, the COVID-19, avian influenza, severe acute respiratory syndrome (SARS), the influenza A virus, Ebola virus, or other outbreaks. In response to an epidemic or other outbreaks, government and other organizations may adopt regulations and policies that could lead to severe disruption to our daily operations, including temporary closure of our offices and other facilities. These severe conditions may cause us and/or our partners to make internal adjustments, including but not limited to, temporarily closing down businesses, limiting business hours, and setting restrictions on travel and/or visits with clients and partners for a prolonged period of time. Various impacts arising from a severe condition may cause business disruptions, resulting in a material, adverse impact to our financial condition and results of operations.

#### **Risks Related to Our Corporate Structure**

***If the PRC government deems that the contractual arrangements in relation to the consolidated variable interest entity do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.***

We are a Cayman Islands exempted company and our PRC subsidiary is considered a foreign invested enterprise. To comply with PRC laws and regulations, we conduct our operations in China through a series of contractual arrangements entered into among the WFOE, the VIE and its wholly owned subsidiaries and the shareholders of the VIE. As a result of these contractual arrangements, we exert control over the VIE and consolidate its operating results in our financial statements under U.S. GAAP. For a detailed description of these contractual arrangements, see “Corporate History and Structure.”

In the opinion of our PRC counsel, Taikun Law Firm, our current ownership structure, the ownership structure of our PRC subsidiary and consolidated VIE and its wholly owned subsidiaries, and the contractual arrangements among the WFOE, the VIE and the shareholders of the VIE are not in violation of existing PRC laws, rules and regulations; and these contractual arrangements are valid, binding and enforceable in accordance with their terms and applicable PRC laws and regulations currently in effect. However, Taikun Law Firm has also advised us that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations and there can be no assurance that the PRC government will ultimately take a view that is consistent with the opinion of our PRC counsel.

If the PRC government finds that our contractual arrangements do not comply with future Chinese laws and regulations, the relevant PRC regulatory authorities, including the CSRC, would have broad discretion in dealing with such violations or failures, including, without limitation:

- discontinuing or placing restrictions or onerous conditions on our operations;
- imposing fines, confiscating the income from the WFOE or the VIE and its subsidiaries, or imposing other requirements with which we or the VIE and its subsidiaries may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with the VIE and deregistering the equity pledges of the VIE, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over the VIE and its subsidiaries;
- restricting or prohibiting our use of the proceeds of financings to fund our business and operations in China; or
- taking other regulatory or enforcement actions that could be harmful to our business.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of the VIE and its subsidiaries in our consolidated financial statements, if the PRC government authorities were to find the VIE structure and contractual arrangements to be in violation of PRC laws and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of the VIE and its subsidiaries or our right to receive substantially all of the economic benefits and residual returns from the VIE and its subsidiaries and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of the VIE and its subsidiaries in our consolidated financial statements. Either of these results, or any other significant penalties that might be imposed on us in this event, would have a material adverse effect on our financial condition and results of operations.

***We rely on contractual arrangements with the VIE and the shareholders of the VIE for our business operations, which may not be as effective as direct ownership in providing operational control.***

We have relied and expect to continue to rely on contractual arrangements with Jiangsu Yanggu Culture Development Co., Ltd. (“Jiangsu Yanggu”) and Jiangsu Yanggu’s current management to operate our business. For a description of these contractual arrangements, see “Corporate History and Structure.” These contractual arrangements may not be as effective as direct ownership in providing us with control over the consolidated VIE and its subsidiaries. For example, the consolidated variable interest entity and their shareholders could breach their contractual arrangements with us by, among other things, failing to conduct their operations, including providing technical and warehouse services, or taking other actions that are detrimental to our interests.

If we had direct ownership of the VIE and its subsidiaries, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of the VIE and its subsidiaries, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational levels. However, under the current contractual arrangements, we rely on the performance by the consolidated variable interest entity and its shareholders of their obligations under the contracts to exercise control over the consolidated VIE and its subsidiaries. The shareholders of the consolidated variable interest entity may not act in the best interests of our Company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with the consolidated VIE and its subsidiaries. Although we have the right to replace any shareholder of the consolidated variable interest entity under the contractual arrangements, if any shareholder of the consolidated variable interest entity is uncooperative or any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC laws and arbitration, litigation and other legal proceedings and therefore will be subject to uncertainties in the PRC legal system. See “—*Any failure by the consolidated variable interest entity or its shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.*” Therefore, our contractual arrangements with the consolidated VIE and its subsidiaries may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

***Any failure by the consolidated VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.***

If the consolidated VIE or its shareholders fail to perform their respective obligations under the contractual arrangements or if any physical instruments, such as chops and seals of the VIE, are used without our authorization to enter into contractual arrangements in China, we may have to incur substantial costs and expend additional resources to seek legal remedies under PRC laws including specific performance or injunctive relief, and/or claiming damages, which we cannot assure you will be effective under PRC laws. For example, if the shareholders of the VIE were to refuse to transfer their equity interest in the VIE to us or our designee if we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal action to compel them to perform their contractual obligations.

All of the agreements under our contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated variable interest entity should be interpreted or enforced under PRC laws. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC laws, rulings by arbitrators are final and parties cannot appeal arbitration results in court unless such rulings are revoked or determined unenforceable by a competent court. If the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over the consolidated VIE and its subsidiaries, and our ability to conduct our business may be negatively affected. See “—*Risks Related to Doing Business in China—Uncertainties and quick change in the interpretation and enforcement of Chinese laws and regulations with little advance notice could result in a material and negative impact on our business operations, decrease the value of our securities and limit the legal protections available to you and us.*”

***The shareholders of the consolidated VIE may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.***

Forty percent of the equity interests of Jiangsu Yanggu are held by Aimin Kong and Huajun Gao. Their interests in Jiangsu Yanggu may differ from the interests of our Company as a whole. These shareholders may breach, or cause the consolidated variable interest entity to breach, the existing contractual arrangements we have with them and the consolidated variable interest entity, which would have a material adverse effect on our ability to effectively control the consolidated VIE and its subsidiaries and receive economic benefits from them. For example, the shareholders may be able to cause our agreements with Jiangsu Yanggu to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our Company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our Company, except that we could exercise our purchase option under the exclusive option agreements with these shareholders to request them to transfer all of their equity interests in Jiangsu Yanggu to a PRC entity or individual designated by us, to the extent permitted by PRC laws. If we cannot resolve any conflict of interest or dispute between us and the major shareholders of Jiangsu Yanggu, we would have to rely on legal proceedings, which could result in the disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

***Contractual arrangements in relation to the consolidated variable interest entity and its subsidiaries may be subject to scrutiny by the PRC tax authorities and they may determine that we or our PRC consolidated VIE and its subsidiaries owe additional taxes, which could negatively affect our financial condition and the value of your investment.***

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year when the transactions are conducted. The PRC enterprise income tax law requires every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its related parties to the relevant tax authorities. The tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm's length principles. We may face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements between the WFOE, our wholly-owned subsidiary in China, the consolidated VIE in China, and the shareholders of the VIE were not entered into on an arm's length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust the VIE's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by the VIE and its subsidiaries for PRC tax purposes, which could in turn increase their tax liabilities without reducing the WFOE's tax expenses. In addition, if the WFOE requests that the shareholders of the VIE transfer their equity interests in the VIE at nominal or no value pursuant to these contractual arrangements, such transfer could be viewed as a gift and subject the VIE to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees and other penalties on the VIE for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if the consolidated VIE and its subsidiaries tax liabilities increase or if they are required to pay late payment fees and other penalties.

***We may lose the ability to use and enjoy assets held by the consolidated VIE and its subsidiaries that are material to the operations of our business if one or more of the entities goes bankrupt or becomes subject to a dissolution or liquidation proceeding.***

The consolidated VIE and its subsidiaries hold certain assets that are material to the operation of our business, including certain domain names, supporting system and equipment for our online trading platform. Under the contractual arrangements, the consolidated VIE may not and its shareholders may not cause them to, in any manner, sell, transfer, mortgage or dispose of their assets or their legal or beneficial interests in the business without our prior consent. However, in the event the consolidated VIE's shareholders breach these contractual arrangements and voluntarily liquidate the consolidated VIE and its subsidiaries or the consolidated VIE and its subsidiaries declare bankruptcy and all or part of their assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If the consolidated VIE and its subsidiaries undergo a voluntary or involuntary liquidation proceeding, independent 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.

## Risks Related to Doing Business in China

***Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and results of operations.***

A substantial part of our operations are located in China. Accordingly, our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China are still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, and since 2012, China's economic growth has slowed down. Any prolonged slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations.

***Uncertainties and quick change in the interpretation and enforcement of Chinese laws and regulations with little advance notice could result in a material and negative impact on our business operations, decrease the value of our securities and limit the legal protections available to you and us.***

The PRC legal system is based on written statutes, and prior court decisions have limited value as precedents. 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. The enforcement of laws and that rules and regulations in China can change quickly with little advance notice and the risk that the Chinese government may intervene or influence our operations at any time, or may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, could result in a material change in our operations and/or the value of our securities.

On July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly issued an announcement to crack down on illegal activities in the securities market and promote the high-quality development of the capital market, which, among other things, requires the relevant governmental authorities to strengthen cross-border oversight of law-enforcement and judicial cooperation, to enhance supervision over China-based companies listed overseas, and to establish and improve the system of extraterritorial application of the PRC securities laws. On February 17, 2023, the CSRC released the New Overseas Listing Rules with five interpretive guidelines, which took effect on March 31, 2023. The New Overseas Listing Rules require Chinese domestic enterprises to complete filings with relevant governmental authorities and report related information under certain circumstances, such as: a) an issuer making an application for initial public offering and listing in an overseas market; b) an issuer making an overseas securities offering after having been listed on an overseas market; c) a domestic company seeking an overseas direct or indirect listing of its assets through single or multiple acquisition(s), share swap, transfer of shares or other means. According to the Notice on Arrangements for Overseas Securities Offering and Listing by Domestic Enterprises, published by the CSRC on February 17, 2023, a company that (i) has already completed overseas listing or (ii) has already obtained the approval for the offering or listing from overseas securities regulators or exchanges but has not completed such offering or listing before effective date of the new rules and completes such offering or listing before September 30, 2023 will be considered as an existing listed company and is not required to make any filing until it conducts a new offering in the future. Furthermore, upon the occurrence of any of the material events specified below after an issuer has completed its offering and listed its securities on an overseas stock exchange, the issuer shall submit a report thereof to the CSRC within 3 working days after the occurrence and public disclosure of the event: (i) change of control; (ii) investigations or sanctions imposed by overseas securities regulatory agencies or other competent authorities; (iii) change of listing status or transfer of listing segment; or (iv) voluntary or mandatory delisting. Any actions by the Chinese government to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of our securities to significantly decline or be worthless.



On February 15, 2022, Cybersecurity Review Measures published by Cyberspace Administration of China, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Public Security, Ministry of State Security, Ministry of Finance, Ministry of Commerce, People's Bank of China, State Administration of Radio and Television, China Securities Regulatory Commission, State Secrecy Administration and State Cryptography Administration became effective, which provides that, Critical Information Infrastructure Operators ("CIIOs") that intend to purchase internet products and services and Online Platform Operators engaging in data processing activities that affect or may affect national security shall be subject to the cybersecurity review by the Cybersecurity Review Office. On November 14, 2021, CAC published the Administration Measures for Cyber Data Security (Draft for Public Comments), or the "Cyber Data Security Measure (Draft)", which requires cyberspace operators with personal information of more than 1 million users who want to list abroad to file a cybersecurity review with the Office of Cybersecurity Review. On April 2, 2022, the CSRC released the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), which provide that a domestic company that seeks to offer and list its securities in a overseas market shall strictly abide by applicable PRC laws and regulations, enhance legal awareness of keeping state secrets and strengthening archives administration, institute a sound confidentiality and archives administration system, and take necessary measures to fulfill confidentiality and archives administration obligations. On July 7, 2022, CAC promulgated the Measures for the Security Assessment of Data Cross-border Transfer, effective on September 1, 2022, which requires the data processors to apply for data cross-border security assessment coordinated by the CAC under the following circumstances: (i) any data processor transfers important data to overseas; (ii) any critical information infrastructure operator or data processor who processes personal information of over 1 million people provides personal information to overseas; (iii) any data processor who provides personal information to overseas and has already provided personal information of more than 100,000 people or sensitive personal information of more than 10,000 people to overseas since January 1st of the previous year; and (iv) other circumstances under which the data cross-border transfer security assessment is required as prescribed by the CAC. As confirmed by our PRC counsel Jiangsu Taikun Law Firm, we are currently not subject to cybersecurity review with the Cyberspace Administration of China ("CAC") under these new measures, because we operate our online platforms through our subsidiaries in Hong Kong which are not subject to the laws and regulations of China, and the VIE and its subsidiaries in China provide marketing, warehouse storage and technical maintenance services and they are not cyberspace operators with personal information of more than 1 million users or activities that affect or may affect national security. Nevertheless, the aforementioned measures and any related implementation rules to be enacted may subject us to additional compliance requirement in the future.

We cannot rule out the possibility that the PRC government will institute a licensing regime or pre-approval requirement covering our business operations in China at some point in the future. If such a licensing regime or approval requirement were introduced, we cannot assure you that we would be able to obtain any newly required license in a timely manner, or at all, which could materially and adversely affect our business and impede our ability to continue our operations in China.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy in the PRC legal system than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainties over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

***The Chinese government exerts substantial influence over the manner in which we must conduct our business, and may intervene or influence our operations at any time, which could result in a material change in our operations, significantly limit or completely hinder our ability to offer or continue to offer our securities to investors and, and cause the value of our securities to significantly decline or be worthless.***

The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, environmental regulations, land use rights, property and other matters. The central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties.

As such, our business in China is subject to various government and regulatory interferences. We could be subject to regulation by various political and regulatory entities, including various local and municipal agencies and government sub-divisions. The Company may incur increased costs necessary to comply with existing and newly adopted laws and regulations or penalties for any failure to comply. Our operations could be adversely affected, directly or indirectly, by existing or future laws and regulations relating to its business or industry, which could result in a material change in our operation and the value of our securities.

Furthermore, according to the newly published New Overseas Listing Rules, although we are currently not required to obtain permission from any of the PRC federal or local government and has not received any denial to list on the U.S. exchange, we are required to file with CSRC for future offerings. It is uncertain when and whether we will be required to obtain permission from the PRC government to list and trade on U.S. exchanges in the future, and even when such permission is obtained, whether it will be denied or rescinded, which could significantly limit or completely hinder our ability to offer or continue to offer our securities to investors and cause the value of our securities to significantly decline or be worthless.

***The Holding Foreign Companies Accountable Act, or the HFCA Act, and the related regulations are evolving quickly. Further implementations and interpretations of or amendments to the HFCA Act or the related regulations, or a PCAOB's determination of its lack of sufficient access to inspect our auditor, might pose regulatory risks to and impose restrictions on us because of our operations in mainland China. A potential consequence is that our ordinary shares may be delisted by the exchange. The delisting of our ordinary shares, or the threat of our ordinary shares being delisted, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct full inspections of our auditor deprives our investors of the benefits of such inspections.***

The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. In accordance with the HFCA Act, trading in securities of any registrant on a national securities exchange or in the over-the-counter trading market in the United States may be prohibited if the PCAOB determines that it cannot inspect or fully investigate the registrant's auditor for three consecutive years beginning in 2021, and, as a result, an exchange may determine to delist the securities of such registrant. On June 22, 2021, the U.S. Senate passed the Accelerating Holding Foreign Companies Accountable Act, which would amend the HFCA Act and require the SEC to prohibit an issuer's securities from trading on any U.S. stock exchanges if its auditor is not subject to PCAOB inspections for two consecutive years instead of three, thus reducing the time period before our securities may be prohibited from trading or delisted if our auditor is unable to meet the PCAOB inspection requirement. On December 29, 2022, a legislation entitled "Consolidated Appropriations Act, 2023" (the "Consolidated Appropriations Act"), was signed into law by President Biden. The Consolidated Appropriations Act contained, among other things, an identical provision to Accelerating Holding Foreign Companies Accountable Act, which reduces the number of consecutive non-inspection years required for triggering the prohibitions under the HFCA Act from three years to two.

On November 5, 2021, the SEC adopted the PCAOB rule to implement HFCA Act, which provides a framework for the PCAOB to determine whether it is unable to inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction.

On December 2, 2021, SEC adopted amendments to finalize rules implementing the submission and disclosure requirements in the HFCA Act. The rules apply to registrants the SEC identifies as having filed an annual report with an audit report issued by a registered public accounting firm that is located in a foreign jurisdiction and that the PCAOB is unable to inspect or investigate (the "Commission-Identified Issuers"). A Commission-Identified Issuer will be required to comply with the submission and disclosure requirements in the annual report for each year in which it was identified. If a registrant is identified as a Commission-Identified Issuer based on its annual report for the fiscal year ended December 31, 2021, the registrant will be required to comply with the submission or disclosure requirements in its annual report filing covering the fiscal year ended December 31, 2022.

On December 16, 2021, the PCAOB issued its determinations (the “Determination”) that they are unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in mainland China and in Hong Kong. The Determination includes lists of public accounting firms headquartered in mainland China and Hong Kong that the PCAOB is unable to inspect or investigate completely.

On August 26, 2022, the PCAOB signed a Statement of Protocol with the China Securities Regulatory Commission and the Ministry of Finance of the People’s Republic of China governing inspections and investigations of audit firms based in China and Hong Kong. On December 15, 2022, the PCAOB Board determined that the PCAOB was able to secure complete access to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong and voted to vacate its previous determinations to the contrary. However, should PRC authorities obstruct or otherwise fail to facilitate the PCAOB’s access in the future, the PCAOB Board will consider the need to issue a new determination.

The enactment of the HFCA Act and related regulations and any additional actions, proceedings, or new rules resulting from these efforts to increase U.S. regulatory access to audit information could cause investors uncertainty for affected issuers and the market price of our ordinary shares could be adversely affected, and we could be delisted if our auditor is unable to meet the PCAOB inspection requirement.

The lack of access to PCAOB inspections prevents the PCAOB from fully evaluating audits and quality control procedures of the auditors based in China and Hong Kong. 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 and Hong Kong makes it more difficult to evaluate the effectiveness of these accounting firm’s audit procedures and quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections.

Our auditor, Wei, Wei & Co., LLP, an independent registered public accounting firm that is headquartered in the United States, 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 inspections to assess its compliance with the applicable professional standards. Our auditor has been inspected by the PCAOB on a regular basis with the last inspection in 2020 and it is not included in the PCAOB Determinations. However, 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 our audit. If it is later determined that the PCAOB is unable to inspect or investigate completely our auditor because of a position taken by an authority in a foreign jurisdiction or any other reasons, the lack of inspection could cause the trading in our securities to be prohibited under the Holding Foreign Companies Accountable Act, and as a result Nasdaq may delist our securities. If our securities are unable to be listed on another securities exchange, such a delisting would substantially impair your ability to sell or purchase our securities when you wish to do so, and the risk and uncertainty associated with a potential delisting would have a negative impact on the price of our ordinary shares. Further, new laws and regulations or changes in laws and regulations in both the United States and China could affect our ability to list our ordinary shares on Nasdaq, which could materially impair the market for and market price for our securities.

***Regulatory bodies of the United States may be limited in their ability to conduct investigations or inspections of our operations in China.***

From time to time, the Company may receive requests from certain U.S. agencies to investigate or inspect the Company’s operations, or to otherwise provide information. While the Company will be compliant with these requests from these regulators, there is no guarantee that such requests will be honored by those entities who provide products or services to us or with whom we associate, especially those entities located in China. 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. Besides, 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 State Council and the competent departments of the 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. Furthermore, an on-site inspection of our facilities by any of these regulators may be limited or entirely prohibited. Such inspections, though permitted by the Company and its affiliates, are subject to the unpredictability of the Chinese enforcers, and may therefore be impossible to facilitate.

***Substantial uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.***

On March 15, 2019, the National People's Congress, or the NPC, approved the Foreign Investment Law, which took effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-owned Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment through contractual arrangements would not be interpreted as a type of indirect foreign investment activity under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations.

In addition, the Foreign Investment Law grants national treatment to foreign invested entities, except for those foreign invested entities that operate in industries deemed to be either "restricted" or "prohibited" pursuant to the "Negative List" released by or upon approval by the State Council. Foreign investors are prohibited from making any investments in the industries which are listed as "prohibited" in the Negative List; and, after satisfying certain additional requirements and conditions as set forth in the "Negative List" (for instance, Chinese shareholders are required to control or hold a certain percentage of equity interest in a foreign invested enterprise), are allowed to make investments in industries which are listed as "restricted" in the Negative List. For any foreign investor that fails to comply with the Negative List, the competent authorities can ban its investment activities, require such investor to take measures to correct its non-compliance activities and impose other penalties. Though the business we conduct through the variable interest entity is not within the category in which foreign investment is currently restricted or prohibited under the Negative List or other PRC Laws, we expect that in the future Jiangsu Yanggu will engage in marketing survey services for online marketplaces. Marketing survey services are within the category in which foreign investment is restricted pursuant to the Negative List.

In the event any of our future business and operations carried out through the VIE are treated as a foreign investment and are classified in the "restricted" or "prohibited" industry in the "Negative List" under the Foreign Investment Law, and such contractual arrangements are deemed as invalid and illegal, we may have to unwind such contractual arrangements and/or dispose of such business, which could materially and adversely affect our business and impede our ability to continue our operations.

***Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.***

Our business is subject to governmental supervision and regulation by the relevant PRC governmental authorities. Together, these government authorities promulgate and enforce regulations that cover many aspects of the collectibles and artwork trading and related services exchange platform. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

We have obtained all of the applicable licenses and permits for our current business in China. We cannot assure you that we will be able to obtain any new permits or licenses required for conducting our business in China or will be able to maintain our existing licenses. If the PRC government determines that we are operating without the proper approvals, licenses or permits or promulgates new laws and regulations that require additional approvals or licenses or imposes additional restrictions on the operation of any part of our business, it has the power, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue the relevant parts of our business or to impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material adverse effect on our business and results of operations.

***If any company incorporated in Hong Kong operating online collectibles and/or artwork trading platform is subject to PRC current or future laws and regulations regarding collectible or artwork trading business, our operation may be materially adversely affected due to the uncertainty whether we would be able to obtain approval from the provincial government and complete the filing with “Inter-Ministerial Joint Meetings of Clean-up and Corrective Actions of Various Trading Platforms” (the “Joint Meeting”) led by the China Securities Regulatory Commission (the “CSRC”).***

According to “Decision Of The State Council On Cleaning Up And Rectifying Various Trading Platforms And Taking Effective Precautions Against Financial Risks” (“Decision No.38”) promulgated by the State Council of the PRC on November 11, 2011 and effective on the same day, and “Opinions Of The General Office Of The State Council On The Implementation Of The Clean-Up And Rectification Of Various Trading Platforms” (“Opinion No.37”) promulgated by the General Office of the State Council of the PRC on July 12, 2012 and effective on the same day, any trading places and their branches that violate any of the following provisions shall be cleaned up and rectified. Such parties must not:

- (1) Divide any equity into equal shares for public offering. An “equal share public offering” is when a trading place uses its services and facilities to divide its equity into equal shares and sell them to investors. The relevant provisions of the company law and the securities law shall apply to the public issuance of shares by a joint stock company.
- (2) Adopt centralized trading. The “centralized trading methods” referred to in this opinion include collective bidding, continuous bidding, electronic matching, anonymous trading, market makers and other trading methods, except for agreement transfers and legal auctions.
- (3) Continuously list and trade the rights and interests in accordance with standardized trading units. The “standardized trading unit” referred to in this opinion refers to the minimum trading unit set for other equities other than equity, and trading at the minimum trading unit or integer multiples thereof. “Continuous listing transaction” refers to listing and selling the same trading variety within 5 trading days after buying or listing, and buying the same trading variety within 5 trading days after selling.
- (4) Have a cumulative number of equity holders exceeding 200. Except as otherwise provided for by laws and administrative regulations, the cumulative number of actual holders of any equity shall not exceed 200 during the term of the company’s existence, no matter in the course of issuance or transfer.
- (5) Carry out standardized contract trading by centralized trading. The “standardized contract” referred to in this opinion includes two situations: one is a unified contract established by the trading place with fixed terms other than price, which stipulates the delivery of a certain amount of the subject matter at a certain time and place in the future. The other is a contract made by the exchange that gives the buyer the right to buy or sell the agreed subject matter at a specified price at a certain time in the future.
- (6) Without the approval of the relevant financial administrative department of the state council, establish either trading places for the trading of financial products such as insurance, credit and gold, or use any existing other trading places for the trading of financial products such as insurance, credit and gold.

Additionally, according to “Notice Concerning The Issuance Of Minutes Of The Special Session On The Clean-Up And Rectification Of Stamp And Commemorative Coins Trading Places” promulgated by the Office of the Joint Meeting on August 2, 2017, any stamps, coins and magcards using a stock issuance-like model to trading places mainly trading stamps by a concentrated bidding and “T+0” transaction method should cease to operate. The stamps, coins and magcards being illegally traded must be made off-line in time. Trading places which have ceased operations shall not re-start operating unless they obtain approval from the provincial government and complete the required filing with the Joint Meeting. Provincial governments should re-evaluate the necessity of transactions of stamps, coins and magcards, considering the development and interests of the economic society, as well as risks, efficiencies and costs. If it is considered as necessary to maintain transactions of stamps, coins and magcards, the provincial government may appoint a stamp, coins and magcards exchange to organize stamps, coins and magcards transactions by way of transfer of property through agreements. Such exchange must have obtained permission from the provincial government, passed the examination and acceptance check of provincial government and completed filings at relevant joint meetings. In addition, such exchange must be in strict compliance with Decision No.38 and Opinion No.37 and shall not adopt or allow concentrated bidding or other types of centralized trading, and the interval between the purchase and sale of the same item or vice versa shall not be less than 5 trading days.

We are an international online trading platform that provides state-of-the-art, convenient services for various types of collectibles and artwork, incorporated in Hong Kong. We provide an on-line platform for our clients to trading coins, stamps, ancient coins, and other collectibles and artwork. According to Rules for Trading Cultural And Art Collections (interim) (the “Trading Rules”) of International Exchange, we do not provide an “equal share public offering”, which means dividing a trading subject into several shares, but only allow a physical subject to be traded as a whole. After trading, the original owner and the successful bidder can pick up the goods from the relevant storage company.

Currently, we use a “T+0” bidding method and allow our clients to centralize trading in our platform, which was not against Hong Kong current related laws and regulations regarding artwork trading. And, as a Hong Kong online collectible and artwork trading platform, we believe those laws and regulations regulating collectible and artwork trading in mainland China, such as Decision No.38 and Opinion No.37, do not apply to our trading platforms. However, there may be substantial uncertainties regarding the interpretation and application of future PRC laws and regulations applicable to our business and that the PRC government or any other governmental authorities may in future impose license requirements or take further actions having material adverse effects on our business or finance.

***We may rely on dividends and other distributions on equity paid by our PRC subsidiary and the subsidiaries of the VIE to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiary or the VIE and the subsidiaries of the VIE to make payments to us could have a material adverse effect on our ability to conduct our business.***

We are a holding company, and will rely on dividends and other distributions on equity paid by our PRC subsidiary and Hong Kong subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If our subsidiaries, the VIE or its subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require Jiangsu Yanggu to adjust its taxable income under the contractual arrangements it currently has in place with the consolidated variable interest entity in a manner that would materially and adversely affect its ability to pay dividends and other distributions to us. See “—Risks Related to Our Corporate Structure—Contractual arrangements in relation to the consolidated VIE and its subsidiaries may be subject to scrutiny by the PRC tax authorities and they may determine that we or our PRC consolidated VIE and its subsidiaries owe additional taxes, which could negatively affect our financial condition and the value of your investment.”

Under PRC laws and regulations, our PRC subsidiary, as a wholly foreign-owned enterprise in China, may pay dividends only out of its respective accumulated after-tax profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such funds reaches 50% of its registered capital. At its discretion, a wholly foreign-owned enterprise may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

Any limitation on the ability of our PRC subsidiary to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See also “Risks Related to Doing Business in China —If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.”

We are a holding company and currently we conduct our business operations within the PRC through the VIE and its subsidiaries. If our board and management decide to keep the profits of the subsidiaries of the VIE for their business development and expansion instead of making dividends to the VIE, the VIE might not be able to pay its service fees to the WFOE pursuant to the Technical Consultation and Service Agreement, and our WFOE will not be able to make dividend distribution to the Company.

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

Under PRC laws and regulations, we are permitted to utilize the proceeds from financings to fund our PRC subsidiary by making loans to or additional capital contributions to our PRC subsidiary, subject to applicable government registration and approval requirements.

Any loans to our PRC subsidiary, which are treated as foreign-invested enterprises under PRC laws, are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our PRC subsidiary to finance its activities cannot exceed statutory limits and must be registered with the local counterpart of the State Administration of Foreign Exchange, or SAFE. The statutory limit for the total amount of foreign debts of a foreign-invested company is the difference between the amount of total investment as approved by MOFCOM or its local counterpart and the amount of registered capital of such foreign-invested company.

We may also decide to finance our PRC subsidiary by means of capital contributions. These capital contributions must be approved by MOFCOM or its local counterpart. In addition, SAFE issued a circular in September 2008, SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular 142 provides that the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and unless otherwise provided by law, may not be used for equity investments within the PRC. Although on July 4, 2014, the SAFE issued the Circular of the SAFE on Relevant Issues Concerning the Pilot Reform in Certain Areas of the Administrative Method of the Conversion of Foreign Exchange Funds by Foreign-invested Enterprises, or SAFE Circular 36, which launched a pilot reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises in certain designated areas from August 4, 2014 and some of the restrictions under SAFE Circular 142 will not apply to the settlement of the foreign exchange capitals of the foreign-invested enterprises established within the designate areas and such enterprises mainly engaging in investment are allowed to use its RMB capital converted from foreign exchange capitals to make equity investments, our PRC subsidiary is not established within the designated areas. On March 30, 2015, SAFE promulgated Circular 19, to expand the reform nationwide. Circular 19 came into force and replaced both Circular 142 and Circular 36 on June 1, 2015. Circular 19 allows foreign-invested enterprises to make equity investments by using RMB funds converted from foreign exchange capital. However, Circular 19 continues to prohibit foreign-invested enterprises from, among other things, using RMB funds converted from its foreign exchange capitals for expenditure beyond its business scope, providing entrusted loans or repaying loans between non-financial enterprises. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of a foreign-invested company. The use of such RMB capital may not be altered without SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations of these Circulars could result in severe monetary or other penalties. These circulars may significantly limit our ability to use RMB converted from securities offerings to fund the establishment of new entities in China by our PRC subsidiary, to invest in or acquire any other PRC companies through our PRC subsidiary, or to establish new variable interest entities in the PRC.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, 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 to our PRC subsidiary or future capital contributions by us to our PRC subsidiary. If we fail to complete such registrations or obtain such approvals, our ability to use our overseas' financing to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

***Fluctuations in exchange rates could have a material adverse effect on our results of operations and the value of your investment.***

Our reporting currency is the U.S. dollar while the functional currency for our PRC subsidiary and the consolidated VIE and its subsidiaries is RMB. As a result, fluctuations in the exchange rate between the U.S. dollar and RMB will affect the relative purchasing power in RMB terms of our U.S. dollar assets. Gains and losses from the remeasurement of assets and liabilities that are receivable or payable in RMB are included in our consolidated statements of income and comprehensive income. The remeasurement has caused the U.S. dollar value of our results of operations to vary with exchange rate fluctuations, and the U.S. dollar value of our results of operations will continue to vary with exchange rate fluctuations. A fluctuation in the value of RMB relative to the U.S. dollar could reduce our profits from operations and the translated value of our net assets when reported in U.S. dollars in our financial statements. This could have a negative impact on our business, financial condition or results of operations as reported in U.S. dollars. 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. In addition, fluctuations in currencies relative to the periods in which the earnings are generated may make it more difficult to perform period-to-period comparisons of our reported results of operations.

There remains significant international pressure on the PRC government to adopt a flexible currency policy. Any significant appreciation or depreciation of the RMB may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our ordinary shares in U.S. dollars. For example, to the extent that we need to convert U.S. dollars we receive from an offering into RMB to pay our operating expenses, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, a significant depreciation of the RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the market price of our ordinary shares.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

***Governmental control of currency conversion may limit our ability to utilize our net revenues effectively and affect the value of your investment.***

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive a substantial part of our net revenues in RMB. Under our current corporate structure, our company in the Cayman Islands will rely on dividend payments from our PRC subsidiary and Hong Kong subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiary is able to pay dividends in foreign currencies to us without prior approval from SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by the beneficial owners of our Company who are PRC residents. But approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.



***Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.***

We are required under PRC laws and regulations to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. As of the date of this report, we believe that we have made adequate employee benefit payments. If we fail to make adequate payments in the future, we may be required to make up the contributions for these plans in the amount of 110% of the amount in the preceding month. If we fail to make or supplement contributions of social security premiums within the stipulated period, the social security premiums collection agency may request information of the deposit accounts of the employer with banks and other financial institutions. In an extreme situation, where we failed to contribute social security premiums in full amount and do not provide guarantee, the social security premiums collection agency may apply to a Chinese court for seizure, foreclosure or auction of our properties of value equivalent to the amount of social security premiums payable, and the proceeds from auction shall be used for contribution of social security premiums. If we are subject to deposit, seizure, foreclosure or auction in relation to the underpaid employee benefits, our financial condition and results of operations may be adversely affected.

***Our business is susceptible to fluctuations in the art and collectibles markets of China and Hong Kong.***

We conduct our business primarily in China. Our business depends substantially on the conditions of the PRC and Hong Kong art and collectibles markets. Demand for collectibles and artwork in China has grown rapidly in the recent decade but such growth is often coupled with volatility in market conditions and fluctuation in prices. Fluctuations of supply and demand in China's art market are caused by economic, social, political and other factors, such as the outbreak of COVID-19 and government's action to contain the spread of the pandemic as well as its impact on the overall Chinese economy, interest rates, discretionary consumer spending and investment desires in art and collectibles. Over the years, governments at both national and local levels have announced and implemented various policies and measures aimed to regulate the art and collectible markets. These measures have affected and may continue to affect the conditions of China's art and collectible markets and cause fluctuations in collectibles and artwork prices. To the extent fluctuations in the art market may adversely affect the trading volume on our platforms, or require us to provide our services on unfavorable terms, our financial condition and results of operations may be materially and adversely affected.

***Our business is susceptible to fluctuations of the commodities trade on our market.***

Starting in 2019, we have listed certain commodities such as teas, Yun Nan Ham and Chinese mitten crabs on our platform. Customer trading activities are to some extent influenced by the changes in these commodity prices in international and domestic markets. As a result, our future operating results may be subject to the fluctuations of these products due to the risks related to natural disasters such as drought, flood, snowstorms or other abnormal temperature changes, extreme weather and health epidemics or pandemics, which are unpredictable and beyond our control. Any pandemic outbreak such as COVID-19 and the government's action to contain the spread of the pandemic could materially negatively impact our ability of listing, trading and delivery of such products. We currently have teas and Chinese mitten crabs on our platform. The prices and trading for teas and Chinese mitten crabs could also be affected by the outbreak of diseases to tea trees and crabs which could significantly decrease the quantity and quality of these products for trading on our platform. The general trading activities of these commodities are also directly affected by factors such as economic and political conditions, macro trends in business and finance, investors' interest level in these commodity trading and legislative and regulatory changes. Any one or more of these factors, or other factors, may reduce the trading activity level of these commodities on our platform and adversely affect our business and results of operations and cash flows.

***The legal rights we hold to use certain leased properties could be challenged by property owners or other third parties, which could prevent us from operating our business or increase the costs associated with our business operations.***

For all of our business facilities and warehouses that we are currently using, we do not hold property ownership with respect to the premises under which those facilities are operated. Instead, we rely on leases with the property owners. Our general practice requires us to examine the title certificates of the property owners as part of our due diligence before entering into a lease with them. If we fail to identify encumbrances on the title, our leases of such properties may be challenged or even invalidated by government authority or relevant dispute resolution institutions. As a result, the development or operations of our facilities on such properties could be adversely affected.

In addition, we are subject to the risks of other potential disputes with property owners and to the forced closure of our facilities. Such disputes and forced closures, whether resolved in the favor of us, may divert our management's attention, harm our reputation, or otherwise disrupt and adversely affect our business.

***The filing with the China Securities Regulatory Commission ("CSRC") may be required in connection with any offerings and certain events of the Company under New Overseas Listing Rules, and we cannot assure you that we will be able to timely make such filing, in which case we may face sanctions by the CSRC or other PRC regulatory agencies for failure to timely file with the CSRC.***

On February 17, 2023, the CSRC released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Enterprises (the "New Overseas Listing Rules") with five interpretive guidelines, which will take effect on March 31, 2023. The New Overseas Listing Rules require Chinese domestic enterprises to complete filings with relevant governmental authorities and report related information under certain circumstances, such as: a) an issuer making an application for initial public offering and listing in an overseas market; b) an issuer making a subsequent overseas securities offering after having been listed on an overseas market; c) a domestic company seeking an overseas direct or indirect listing of its assets through single or multiple acquisition(s), share swap, transfer of shares or other means. According to the Notice on Arrangements for Overseas Securities Offering and Listing by Domestic Enterprises, published by the CSRC on February 17, 2023, a company that (i) has already completed overseas listing or (ii) has already obtained the approval for the offering or listing from overseas securities regulators or exchanges but has not completed such offering or listing before effective date of the new rules and also completes the offering or listing before September 30, 2023 will be considered as an existing listed company and is not required to make any filing until it conducts a new offering in the future. Furthermore, upon the occurrence of any material events specified below after an issuer has completed its offering and listed its securities on an overseas stock exchange, the issuer shall submit a report to CSRC within 3 working days after the occurrence and public disclosure of the event: (i) change of control; (ii) investigations or sanctions imposed by overseas securities regulatory agencies or other competent authorities; (iii) change of listing status or transfer of listing segment; or (iv) voluntary or mandatory delisting.

Our PRC counsel has advised us based on their understanding of the current PRC laws, rules and regulations relating to the CSRC's filing requirements, we may not be required to file with CSRC for our listing and trading of our Ordinary Shares on the Nasdaq in the context of this offering, if we could complete the initial public offering or obtain the approval from the SEC or Nasdaq before March 31, 2023. After the above New Overseas Listing Rules become effective on March 31, 2023, the relevant filing requirement by the CSRC and other governmental authorities will be required in connection with this offering. Given the current PRC regulatory environment, it is uncertain when and whether we and our PRC subsidiaries will be required to obtain other permissions or approvals from the PRC government to list on U.S. exchanges in the future, and even if and when such permissions or approvals are obtained, whether they will be denied or rescinded. If we or any of our PRC subsidiaries do not receive or maintain such permissions or approvals, inadvertently conclude that such permissions or approvals are not required, or applicable laws, regulations, or interpretations change and we or our subsidiaries are required to obtain such permissions or approvals in the future, it could significantly limit or completely hinder our ability to offer or continue to offer our securities to investors and cause the value of our securities to significantly decline or become worthless.

***PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiary's ability to increase its registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law.***

SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. SAFE Circular 37 was issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular 75. SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment in February 2015, which took effect on June 1, 2015. This notice has amended SAFE Circular 37 requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

If our shareholders who are PRC residents or entities do not complete their registration as required, our PRC subsidiary may be prohibited from distributing its profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiary. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

Our major shareholders and executive officers who directly or indirectly hold shares in our Company and are known to us as being PRC residents have completed the foreign exchange registrations required.

However, we may not be informed of the identities of all of the PRC residents or entities holding direct or indirect interest in our Company, nor can we compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiary, 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 to us or affect our ownership structure, which could adversely affect our business and prospects.

***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 Company, replacing earlier rules promulgated in March 2007. Pursuant to these rules, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiary of such overseas listed company, and complete certain other procedures. In addition, an overseas entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our executive officers and other employees who are PRC citizens or who have resided in the PRC for a continuous period of not less than one year will be subject to these regulations when they are granted options or other awards. 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 may face other regulatory uncertainties that could restrict our ability to grant stock awards under incentive plans to our directors, executive officers and employees under PRC law. The Board of Directors of the Company approved and adopted Oriental Culture Holding LTD 2021 Omnibus Equity Plan (the "Equity Plan") on November 8, 2021, which was approved at the stockholders' meeting on December 16, 2021. The total aggregate ordinary shares of the Company authorized for issuance during the term of the Equity Plan is limited to 4,000,000 shares and none has been granted as of the date of this report. Our executive officers, director 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 receive stock awards from the Company will be subject to the SAFE registration requirement.

***If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.***

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control over and overall management of the business, production, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like us, the criteria set forth in the circular 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 all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. See “Taxation—People’s Republic of China Taxation.” 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.” As all of our executive officers are based in China, it remains unclear how the tax residency rule will apply to our case. If the PRC tax authorities determine that we or any of our subsidiaries outside of China is a PRC resident enterprise for PRC enterprise income tax purposes, then we or such subsidiary could be subject to PRC tax at a rate of 25% on its world-wide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of our ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our 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 we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in our ordinary shares.

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

The PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of certain taxable assets, including, in particular, equity interests in a PRC resident enterprise, by a non-resident enterprise by promulgating and implementing SAT Circular 59 and Circular 698, which became effective in January 2008, and Circular 7 in replacement of some of the existing rules in Circular 698, which became effective in February 2015.

Under Circular 698, where a non-resident enterprise conducts an “indirect transfer” by transferring the equity interests of a PRC “resident enterprise” indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, may be subject to PRC enterprise income tax, if the indirect transfer is considered to be an abusive use of company structure without reasonable commercial purposes. As a result, gains derived from such indirect transfer may be subject to PRC tax at a rate of up to 10%. Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

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

We face uncertainties on the reporting and consequences on future private equity financing transactions, share exchange or other transactions involving the transfer of shares in our Company by investors that are non-PRC resident enterprises. The PRC tax authorities may pursue such non-resident enterprises with respect to a filing or the transferees with respect to withholding obligations, and request our PRC subsidiaries to assist in the filing. As a result, we and non-resident enterprises in such transactions may become at risk of being subject to filing obligations or being taxed, under Circular 59 or Circular 698 and Circular 7, and may be required to expend valuable resources to comply with Circular 59, Circular 698 and Circular 7 or to establish that we and our non-resident enterprises should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under SAT Circular 59, Circular 698 and Circular 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. We plan to pursue acquisitions in the future that may involve complex corporate structures. If we are considered a non-resident enterprise under the PRC Enterprise Income Tax Law and if the PRC tax authorities make adjustments to the taxable income of the transactions under SAT Circular 59 or Circular 698 and Circular 7, our income tax costs associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

***If we cannot effectively secure our network, customers' personal information, which we collect through our online platforms, it may be subject to leakage or theft, and if the regulators believe we have failed to fulfill our network security obligations, our online platform may be required to suspend operations to make rectification, which may have a material adverse effect on our operations and financial results due to the large amount of our daily trading conducted online.***

In China, regulatory authorities have implemented and are considering a number of legislative and regulatory proposals concerning data protection. The PRC Civil Code, which is issued by the PRC National People's Congress on May 28, 2020 and became effective on January 1, 2021, stipulates that the personal information of a natural person shall be protected by the law. Any organization or individual shall legally obtain the personal information of others when necessary and ensure the safety of such personal information, and shall not illegally collect, use, process or transmit the personal information of others, or illegally buy or sell, provide or make public the personal information of others. On November 7, 2016, the Standing Committee of the National People's Congress of the PRC (the "NPC") promulgated the Cybersecurity Law of the PRC ("Cybersecurity Law") which became effective on June 1, 2017. Under this law, network operators must provide cybersecurity protection and protect the integrity, confidentiality and availability of network data. The Cybersecurity Law also standardizes the collection and usage of personal information and requires network operators to protect users' privacy security. If a network operator violates the Cybersecurity Law, it can face various penalties, including but not limited to the suspension of related businesses, winding up, shutting down its websites, and revocation of its business license, all of which may be imposed by the relevant authority, along with fines up to RMB 1 million (approximately \$1456,000) if severe damage occurred. The Personal Information Protection Law of the PRC was adopted on August 20, 2021 and became effective on November 1, 2021, stipulating that the personal information shall be processed with the consent of the individual on the premise of full prior notification, and intensifying the punishment for illegal acts.

We collect and process the personal information of the customers who register on our online platforms, for the purpose of managing and maintaining our customers and their trading information. Nanjing Yanyu, one of the wholly-owned subsidiaries of Jiangsu Yanggu, which having a primary business to provide technical support for International Exchange and HKDAEx's online collectibles, art and commodities e-commerce platforms, established network security policies, including Data Security Management Measures, Data Center Network Security Management Rules, Information Security Management Rules and an Information Security Emergency Plan. We also publish "Investor Information Protection Policy" on our online platforms, to help the customers who register on our online platforms understand what, where and how their private information be collected and used by International Exchange, HKDAEx and its affiliates and what measures we take to protect their personal information. Nonetheless, we cannot assure that our cybersecurity protection policies and related technical measures are adequate to prevent network data in our online platforms from being breached, stolen or tampered with. If our online platform network is at risk, we may be required by competent cybersecurity supervision authorities to suspend our online platforms before rectification and we may be fined up to RMB 1 million (approximately \$146,000) if it is found that our online platforms have material security risks or if severe cybersecurity events occur due to failure of our network security protection.

*Although the subsidiary of the VIE operates and maintains the network platforms in mainland China, our main business, providing collectibles and artwork e-commerce services, is conducted by International Exchange in Hong Kong. Therefore, our business model may be considered involving transfer of customers' personal information across borders and we may be subject to the Measures for the Security Assessment of Data Cross-border Transfer. We cannot guarantee that we can pass the safety assessment for cross-border transfers of personal information required by Measures for the Security Assessment of Data Cross-border Transfer. If we fail this assessment, International Exchange may not use customers' personal information stored in mainland China to process its trading on the online platform, which would result in a significant adverse impact on our business operations.*

On July 7, 2022, CAC promulgated the Measures for the Security Assessment of Data Cross-border Transfer, effective on September 1, 2022, which requires the data processors to apply for data cross-border security assessment coordinated by the CAC under the following circumstances: (i) any data processor transfers important data to overseas; (ii) any critical information infrastructure operator or data processor who processes personal information of over 1 million people provides personal information to overseas; (iii) any data processor who provides personal information to overseas and has already provided personal information of more than 100,000 people or sensitive personal information of more than 10,000 people to overseas since January 1st of the previous year; and (iv) other circumstances under which the data cross-border transfer security assessment is required as prescribed by the CAC.

We provide maintenance and warehouse services to our online platforms for collectibles, artwork and commodities trading through the subsidiaries of the VIE in mainland China and we don't transfer customers data cross-border. However, if we need to transfer customers data cross-border in the future and reach the threshold requirements Measures for the Security Assessment of Data Cross-border Transfer, we cannot assure that we will pass this safety assessment, which may have a material adverse effect on our operations and financial results.

*The preferential tax treatment for Kashi Longrui and Kashi Dongfang is only for 5 years and has expired in December 2022 and the expiration of preferential tax treatments will materially and negatively affect our financial results.*

Pursuant to the "Notice on Enterprise Income Tax Preferential Policy of Xinjiang Kashi and Horgos Special Economic Development Zone" ("Circular 112") promulgated by the Ministry of Finance and the State Taxation Administration on November 29, 2011 and effected on the same day, the "Several Opinions of Supporting the Construction of Xinjiang Kashi and Horgos Special Economic Development Zone" ("Circular 33") promulgated by the State Council on September 30, 2011 and effected on the same day, and the "Catalogue of Mainly Encouraged Developing Industry with Preferential Enterprise Income Tax in Difficult Areas in Xinjiang" ("Circular 85") promulgated by Ministry of Finance, the State Administration of Taxation, National Development and Reform Commission and the Ministry of Industry and Information Technology on July 20, 2016 and effected on January 1, 2016, from January 1, 2010 to December 31, 2020, which has been extended to December 31, 2030, enterprises fall into the scope of Circular 85 in Xinjiang Kashi and Horgos Special Economic Development Zone, shall be exempted from enterprise income tax for five years from the tax year in which the first production and operation income is obtained.

Since Kashi Longrui Business Management Services Co., Ltd. (“Kashi Longrui”), a subsidiary of the VIE was incorporated on July 19, 2018 in Xinjiang Kashi Special Economic Development Zone (“Xinjiang Kashi”) and its main business is marketing promotion and consulting, and since Kashi Dongfang Cangpin Culture Development Co., Ltd. (“Kashi Dongfang”), a subsidiary of the VIE was incorporated on August 29, 2018 in Xinjiang Kashi and its main business is providing online and offline joint custody and storage services, these two companies are exempted from income tax for 5 years pursuant to the regulations above.

After the expiration of their initial 5-year period ending in December 2022, Kashi Longrui and Kashi Dongfang will not be exempted from enterprise income tax and will be subject to the PRC Enterprise Income Tax at the rate of 25% on its worldwide income, which will significantly reduce our profitability and negatively affect our financial results.

### **Risks Related to Doing Business in Hong Kong**

#### ***The Hong Kong legal system embodies uncertainties which could limit the legal protections available to you and us.***

As one of the conditions for the handover of the sovereignty of Hong Kong to China, China had to accept some conditions such as Hong Kong’s Basic Law before its return. The Basic Law ensured Hong Kong will retain its own currency (the Hong Kong Dollar), legal system, parliamentary system and people’s rights and freedom for fifty years from 1997. This agreement has given Hong Kong the freedom to function in a high degree of autonomy. The Special Administrative Region of Hong Kong is responsible for its own domestic affairs including, but not limited to, the judiciary and courts of last resort, immigration and customs, public finance, currencies and extradition. Hong Kong continues using the English common law system.

However, if the PRC reneges on its agreement to allow Hong Kong to function autonomously, this could potentially impact Hong Kong’s common law legal system and may in turn bring about uncertainty in, for example, the enforcement of our contractual rights. This could, in turn, materially and adversely affect our business and operation. Additionally, intellectual property rights and confidentiality protections in Hong Kong may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the Hong Kong 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, including our ability to enforce our agreements with our customers.

#### ***It will be difficult to acquire jurisdiction and enforce liabilities against our officers, directors and assets based in Hong Kong.***

Certain of our assets are located in Hong Kong and our officers and our present directors reside outside of the United States. As a result, it may not be possible for United States investors to enforce their legal rights, to effect service of process upon our directors or officers or to enforce judgments of United States courts predicated upon civil liabilities and criminal penalties of our directors and officers under Federal securities laws.

#### ***We may have difficulty establishing adequate management, legal and financial controls in Hong Kong, which could impair our planning processes and make it difficult to provide accurate reports of our operating results.***

Although we will be required to implement internal controls, we may have difficulty in hiring and retaining a sufficient number of qualified employees to work in Hong Kong in these areas. As a result of these factors, we may experience difficulty in establishing the required controls, making it difficult for management to forecast its needs and to present the results of our operations accurately at all times. If we are unable to establish the required controls, market makers may be reluctant to make a market in our stock and investors may be reluctant to purchase our stock, which would make it difficult for you to sell any shares that you may own or acquire.

#### ***Our business may be affected by the Personal Data (Privacy) Ordinance of Hong Kong.***

Members of our leading online platforms in Hong Kong, including China International Assets and Equity of Artworks Exchange Limited, would need to provide personal information during registration and our online platforms may monitor the online behavior of the members so as to gather data for market trend analysis and upgrade our website. As such, our business in Hong Kong is subject to Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (“PDPO”), which aims to protect the privacy of individuals personal data. The PDPO imposes a statutory duty on data users to comply with the requirements of the six data protection principles (the “Data Protection Principles”) contained in Schedule 1 to the PDPO. The PDPO provides that a data user shall not do an act, or engage in a practice, that contravenes a Data Protection Principle unless the act or practice, as the case may be, is required or permitted under the PDPO. If we violate the PDPO, we may be subject to fines and/or other penalties and may incur legal costs and experience negative media coverage, which could adversely affect our business, results of operations and reputation.

## Risks Related to Our Ordinary Shares

*Our ordinary shares may be thinly traded and you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.*

Our ordinary shares may be “thinly-traded”, meaning that the number of persons interested in purchasing our ordinary shares at or near bid prices at any given time may be relatively small or non-existent. This situation may be attributable to a number of factors, including the fact that we are relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and might be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. A broad or active public trading market for our ordinary shares may not develop or be sustained.

*The market price for our ordinary shares may be volatile.*

The market price for our ordinary shares may be volatile and subject to wide fluctuations due to factors such as:

- the perception of U.S. investors and regulators of U.S. listed Chinese companies;
- actual or anticipated fluctuations in our operating results;
- changes in financial estimates by securities research analysts;
- negative publicity, studies or reports;
- conditions in Chinese and Hong Kong art and collectible and related service markets;
- our capability to catch up with the technology innovations in the industry;
- changes in the economic performance or market valuations of other collectibles and artwork trading and related services companies;
- announcements by us or our competitors of acquisitions, strategic partnerships, joint ventures or capital commitments;
- addition or departure of key personnel;
- fluctuations of exchange rates between RMB, Hong Kong dollar and the U.S. dollar;
- general economic or political conditions in China and Hong Kong; and
- health epidemics or pandemics, such as the outbreak of COVID-19 and government’s action to contain the spread of the pandemic.

In addition, the securities market has from time-to-time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our ordinary shares.



***Volatility in our ordinary shares price may subject us to securities litigation.***

The market for our ordinary shares may have, when compared to seasoned issuers, significant price volatility and we expect that our share price may continue to be more volatile than that of a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may, in the future, be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

***In order to raise sufficient funds to enhance operations, we may have to issue additional securities at prices which may result in substantial dilution to our shareholders.***

If we raise additional funds through the sale of equity or convertible debt, our current shareholders' percentage ownership will be reduced. In addition, these transactions may dilute the value of ordinary shares outstanding. We may have to issue securities that may have rights, preferences and privileges senior to our ordinary shares. We cannot provide assurance that we will be able to raise additional funds on terms acceptable to us, if at all. If future financing is not available or is not available on acceptable terms, we may not be able to fund our future needs, which would have a material adverse effect on our business plans, prospects, results of operations and financial condition.

***We are not likely to pay cash dividends in the foreseeable future.***

We currently intend to retain any future earnings for use in our operations and expansion of our business. Accordingly, we do not expect to pay any cash dividends in the foreseeable future, but will review this policy as circumstances dictate. Should we determine to pay dividends in the future, our ability to do so will depend upon the receipt of dividends or other payments from the WFOE. The WFOE may, from time to time, be subject to restrictions on its ability to make distributions to us, including restrictions on the conversion of RMB into U.S. dollars or other hard currency and other regulatory restrictions.

Our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ordinary shares will likely depend entirely upon any future price appreciation of our ordinary shares. There is no guarantee that our ordinary shares will appreciate in value or even maintain the price at which you purchased the ordinary shares. You may not realize a return on your investment in our ordinary shares and you may even lose your entire investment in our ordinary shares.

***You may face difficulties in protecting your interests as a shareholder, as Cayman Islands law provides substantially less protection when compared to the laws of the United States and it may be difficult for a shareholder of ours to effect service of process or to enforce judgements obtained in the United States courts.***

Our corporate affairs are governed by our current memorandum and articles of association and by the Companies Act (As Revised) and common law of the Cayman Islands. The rights of shareholders to take legal action against our directors and us, 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 from English common law. Decisions of the Privy Council (which is the final court of appeal for British overseas territories such as the Cayman Islands) are binding on a court in the Cayman Islands. Decisions of the English courts, and particularly the Supreme Court of the United Kingdom and the Court of Appeal are generally of persuasive authority but are not binding on the courts of 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 precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and provide significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the United States federal courts. The Cayman Islands courts are also unlikely to impose liabilities against us in original actions brought in the Cayman Islands, based on certain civil liability provisions of United States securities laws.

Currently, all of our operations are conducted outside the United States, and substantially all of our assets are located outside the United States. All of our directors and officers are nationals or residents of jurisdictions other than the United States and a substantial portion of their assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon these persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

As a result of all of the above, our shareholders may have more difficulty in protecting their interests through actions against us or our officers, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

***Our ordinary shares may be delisted from the NASDAQ Stock Market (“NASDAQ”).***

On November 9, 2022, the Company received a letter from the Nasdaq Stock Market (“Nasdaq”) notifying the Company that, because the closing bid price for the Company’s ordinary shares listed on Nasdaq was below \$1.00 for 30 consecutive trading days, the Company no longer meets the minimum bid price requirement for continued listing on Nasdaq under Nasdaq Marketplace Rule 5550(a)(2), which requires a minimum bid price of \$1.00 per share (the “Minimum Bid Price Requirement”).

The notification has no immediate effect on the listing of the Company’s ordinary shares. In accordance with Nasdaq Marketplace Rule 5810(c)(3)(A), the Company has a period of 180 calendar days from the date of notification, until May 8, 2023 (the “Compliance Period”), to regain compliance with the Minimum Bid Price Requirement. If at any time before the expiration of the Compliance Period the bid price of the Company’s ordinary shares closes at or above \$1.00 per share for a minimum of 10 consecutive business days, Nasdaq will provide written notification that the Company has achieved compliance with the Minimum Bid Price Requirement. If the Company does not regain compliance by the end of the Compliance Period, the Company may be eligible for an additional 180 calendar day period to regain compliance. To qualify, the Company will be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market, with the exception of the bid price requirement, and will need to provide written notice of its intention to cure the deficiency during the second compliance period by effecting a reverse stock split, if necessary. However, if it appears to Nasdaq that the Company will not be able to cure the deficiency, or if the Company is otherwise not eligible, Nasdaq will provide notice that the Company’s securities will be subject to delisting.

***We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.***

We are a foreign private issuer within the meaning of the rules under the Exchange Act. As such, we are exempt from certain provisions applicable to United States domestic public companies. For example:

- we are not required to provide as many Exchange Act reports, or as frequently, as a domestic public company;
- for interim reporting, we are permitted to comply solely with our home country requirements, which are less rigorous than the rules that apply to domestic public companies;
- we are not required to provide the same level of disclosure on certain issues, such as executive compensation;
- we are exempt from provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information;
- we are not required to comply with the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act; and
- we are not required to comply with Section 16 of the Exchange Act requiring insiders to file public reports of their share ownership and trading activities and establishing insider liability for profits realized from any “short-swing” trading transaction.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

***Because we are a foreign private issuer and are exempt from certain NASDAQ corporate governance standards applicable to U.S. issuers, you may have less protection than you would have if we were a domestic issuer.***

The Nasdaq Listing Rules require listed companies to have, among other things, a majority of its board members be independent. As a foreign private issuer, however, we are permitted to follow home country practice in lieu of the above requirements. On March 1, 2023, the Company has notified Nasdaq that it will follow its home country practice in lieu of the provisions under Rule 5620(a), Rule 5635(a)(1), Rule 5635(b), Rule 5635(c) and Rule 5635(d) of the NASDAQ Stock Market Marketplace Rules (the “Rules”) by relying on the exemption provided for foreign private issuers under Marketplace Rule 5615(a)(3). Rule 5620(a) requires that the Company to hold an annual meeting of shareholders no later than one year after the end of the Company’s fiscal year-end; Rule 5635(a)(1) of the Rules requires shareholder approval for the issuance of securities in connection with the acquisition of the stock or assets of another company; Rule 5635(b) of the Rules requires shareholder approval for the issuance of securities when the issuance will result in a change of control of the company; Rule 5635(c) of the Rules requires shareholder approval for share incentive plans; and Rule 5635(d) of the Rules requires shareholder approval for the issuance of securities, other than in a public offering, equal to 20% or more of the voting power outstanding before the issuance for less than the greater of book or market value of the stock. The corporate governance practice in our home country, the Cayman Islands, does not require the Company to follow or comply with the requirements of Rule 5620(a), Rule 5635(a)(1), Rule 5635(b), Rule 5635(c) and Rule 5635(d). We will comply with other corporate governance requirements of the Nasdaq Listing Rules. However, we may consider following home country practice in lieu of additional requirements under the Nasdaq Listing Rules with respect to certain corporate governance standards in the future which may afford less protection to investors.

***We are an “emerging growth company” within the meaning of the Securities Act, and we take advantage of certain exemptions from disclosure requirements available to emerging growth companies, this could make it more difficult to compare our performance with other public companies.***

We are an “emerging growth company” within the meaning of the Securities Act, as modified by the JOBS Act. Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such an election to opt out is irrevocable. We have elected not to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, we, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of our financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

***As an “emerging growth company” under applicable law, we will be subject to reduced disclosure requirements. Such reduced disclosure may make our ordinary shares less attractive to investors.***

For as long as we remain an “emerging growth company”, as defined in the JOBS Act, we will elect to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies”, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. Because of these reduced regulatory requirements, our shareholders would be left without information or rights available to shareholders of more mature companies. If some investors find our ordinary shares less attractive as a result, there may be a less active trading market for our ordinary shares and our share price may be more volatile.

***If we are classified as a passive foreign investment company, United States taxpayers who own our ordinary shares may have adverse United States federal income tax consequences.***

We will be a “passive foreign investment company,” or “PFIC,” if, in any particular taxable year, either (a) 75% or more of our gross income for such year consists of certain types of “passive” income or (b) 50% or more of the average quarterly value of our assets (as determined on the basis of fair market value) during such year produce or are held for the production of passive income (the “asset test”). Although the law in this regard is unclear, we intend to treat the VIE (including its subsidiaries) as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operation of such entity but also because we are entitled to substantially all of its economic benefits, and, as a result, we consolidate its results of operations in our consolidated financial statements. Assuming that we are the owner of the VIE (including its subsidiaries) for U.S. federal income tax purposes, and based upon our current and expected income and assets, including goodwill, and the value of our ordinary shares, we do not believe that we were a PFIC for the taxable year ended December 31, 2022 and we do not expect to be a PFIC for the foreseeable future. However, there can be no assurance that we will not be a PFIC for the current taxable year. In addition, there can be no assurance that we will not be a PFIC for any future taxable year. PFIC status is a factual determination that must be tested each taxable year and will depend on the composition of our assets and income in each such taxable year.

We will be classified as a PFIC for any taxable year if either (i) at least 75% of our gross income for the taxable year is passive income or (ii) at least 50% of the value of our assets (based on a quarterly value of the assets during the taxable year) is attributable to assets that produce or are held for the production of passive income. In determining the average percentage value of our gross assets, the aggregate value of our assets will generally be deemed to be equal to our market capitalization (determined by the sum of the aggregate value of our outstanding equity) plus our liabilities. Accordingly, we could become a PFIC if our market capitalization were to decrease significantly while we hold substantial cash, cash equivalents or other assets that produce or are held for the production of passive income. In addition, because there are uncertainties in the application of the relevant PFIC rules, it is possible that the Internal Revenue Service, or IRS, may challenge our classification of certain income and assets as non-passive or our valuation of our tangible and intangible assets, which could result in a determination that we were a PFIC for the current or subsequent taxable years.

If we were classified as a PFIC in any taxable year in which a U.S. Holder (as defined in “Item 10. Additional Information—10.E. Taxation—United States Federal Income Taxation”) holds the ordinary shares, the U.S. Holder would generally be subject to additional taxes and interest charges on certain “excess” distributions we make and on the gain, if any, recognized on the disposition or deemed disposition of such U.S. Holder’s ordinary shares, even if we are no longer a PFIC in the year of distribution or disposition. Moreover, such U.S. Holder would also be subject to special U.S. tax reporting requirements. For more information on the U.S. tax consequences to U.S. Holders that would result from our classification as a PFIC, see “Item 10. Additional Information—10.E. Taxation—United States federal income taxation—Passive foreign investment company.”

***Our principal shareholders have, and will have substantial influence over our Company and their interests may not be aligned with the interests of our other shareholders.***

As of April 27, 2023, Mun Wah Wan, chairman of our board of directors, beneficially owns 6.6% of our outstanding ordinary shares through HKFAEx Group Limited, which is owned by The Pride Group Holdings Limited, of which Mun Wah Wan is the sole shareholder, and each of Aimin Kong and Huajun Gao, beneficially owns 11.5% of our outstanding ordinary shares through Oriental Culture Investment Development LTD and Oriental Culture Investment Communication LTD, respectively, and, collectively, such three individuals beneficially own approximately 30% of our total outstanding ordinary shares. As a result of their significant shareholding, these shareholders have, and will continue to have, substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. They may take actions that are not in the best interests of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our Company and might reduce the market price of our ordinary shares.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

We are an online provider of collectible and artwork e-commerce services, which allow collectors, artists, art dealers and owners to access a much bigger art and collectible trading market where they can engage with a wider range of collectible or artwork investors than they could likely encounter without our platforms. We currently facilitate trading by individual and institutional customers of all kinds of collectibles, artwork and certain commodities on our leading online platforms owned by our subsidiaries in Hong Kong, namely the China International Assets and Equity of Artworks Exchange Limited and HKDAEx Limited. We commenced our operations in March 2018 and our customer trading volume has been growing rapidly since then. We also provide online and offline integrated marketing, storage and technical maintenance services to our customers in China. We, Oriental Culture Holding LTD, are a holding company with operations conducted via our subsidiaries, variable interest entity and its subsidiaries.

We were incorporated under the laws of the Cayman Islands as an offshore holding company on November 29, 2018, and we own 100% of the equity interest in Oriental Culture Development LTD (“Oriental Culture BVI”), which was incorporated on December 6, 2018 under the laws of British Virgin Islands.

Through Oriental Culture BVI, we own 100% of the equity interest in HK Oriental Culture Investment Development Limited (“Oriental Culture HK”), a company formed under the laws of Hong Kong on January 3, 2019. Through Oriental Culture HK, we directly own 100% of the equity interest in Nanjing Rongke Business Consulting Service Co., Ltd. (the “WFOE” or “Nanjing Rongke”), a wholly-owned PRC subsidiary of Oriental Culture HK. The WFOE entered into a series of agreements with Jiangsu Yanggu Culture Development Co., Ltd. (“Jiangsu Yanggu”) and Jiangsu Yanggu’s shareholders, through which we effectively control and derive all of the economic interest and benefits from Jiangsu Yanggu.

On November 22, 2013, China International Assets and Equity of Artworks Exchange Limited (the “International Exchange”) was incorporated under Hong Kong law. International Exchange provides an online platform to facilitate collectible and artwork trading e-commerce and became our subsidiary as a result of the reorganization of the common control of Oriental Culture and International Exchange.

Jiangsu Yanggu Culture Development Co., Ltd. (the “VIE”) was incorporated on August 23, 2017, and is the holding company for all its wholly owned PRC subsidiaries. Nanjing Yanqing Information Technology Co., Ltd., (“Nanjing Yanqing”) was incorporated on May 17, 2018 and Nanjing Yanyu Information Technology Co., Ltd. (“Nanjing Yanyu”) was incorporated on June 7, 2018 and commenced operations in July 2018. Their primary business is to provide technical and other support for International Exchange and HKDAEx’s online collectible, art and commodities e-commerce business, and to sell software applications and provide support services to our affiliates and third parties.

Kashi Longrui Business Management Services Co., Ltd. (“Kashi Longrui”), a wholly-owned subsidiary of Nanjing Yanqing, was incorporated on July 19, 2018 and commenced operations in August 2018. Its primary business is to provide online and offline marketing services for our e-commerce platform’s members and other related services.

Kashi Dongfang Cangpin Culture Development Co., Ltd. (“Kashi Dongfang”), a wholly-owned subsidiary of Nanjing Yanqing, was incorporated on August 29, 2018 and commenced operations in September 2018. Its primary focus is to provide online and offline warehouse management services for our e-commerce platform’s members.

Zhongcang Warehouse Co., Ltd. (“Zhongcang”) was incorporated on July 19, 2018 and is a joint venture by Kashi Longrui with third parties, namely Zhonglianxin Industry Group (Hunan) Co., Ltd., Nanjing Zhonghao Culture Media Limited, and Zhengjiang Culture Tourism International Cultural and Creative Industry Park Development Co., Ltd. to provide warehouse services to our customers. Kashi Longrui owned 18% of Zhongcang.

On April 18, 2018, HKDAEx Limited (“HKDAEx”) was incorporated under Hong Kong law. On May 9, 2019, we acquired all of the outstanding equity interests of HKDAEx from its original shareholder-HKFAEX Group Limited (“HKFAEX”) for a consideration of 2,400,000 ordinary shares (pre forward share split) of the Company. Effective from May 9, 2019, HKDAEx became our wholly-owned subsidiary. HKDAEx provides our customers with an online trading platform for products and commodities other than collectible and artwork in Hong Kong.

On November 8, 2019, the shareholders of the Company adopted the Second Amended and Restated Articles of Association to effect a 2 for 1 forward share split of the total authorized and issued and outstanding shares of the Company. As a result of the 2 for 1 forward share split, the Company’s total authorized shares are 1,000,000,000 shares comprising of (i) 900,000,000 ordinary shares with a par value of \$0.00005 each and (ii) 100,000,000 preferred shares with a par value of \$0.00005 each, and the Company’s issued and outstanding ordinary shares increased from 12,400,000 shares to 24,800,000 shares. In addition, all existing shareholders agreed to surrender to the Company as treasury shares, 12.5% of the then outstanding ordinary shares (3,100,000 ordinary shares) for no consideration.

On May 28, 2020, all existing shareholders of the Company agreed to surrender an additional 6,510,000 ordinary shares, or 30% of the Company’s then outstanding ordinary shares, at no consideration to be reserved as treasury shares of the Company.

On December 1, 2020, the Company completed its IPO of 5,065,000 ordinary shares and 59,400 option shares at a public offering price of \$4.00 per share, par value US\$0.00005 per share, resulting in net proceeds to the Company of approximately \$17.3 million after deducting underwriting commission, offering costs and other expenses.

In March 2022, Jiangsu Yanggu signed a Capital Increase Investment Agreement (“Agreement”) with Noble Family New Retail Co., Ltd. (“Noble Family”), Beijing Wen Jiao Technology Co., Ltd. (“BJWJ”) and two investors to acquire shares and increase capital of Beijing Jiu Yu Ling Jing Technology Co., Ltd. (“JYLJ”). Pursuant to the Agreement, Jiangsu Yanggu will acquire 11.875% equity interest of JYLJ through a cash contribution of RMB 6 million (approximately \$923,076) and providing certain internet development resources and technical support to JYLJ. Noble Family and BJWJ, the existing shareholders of JYLJ and two new investors will also make contributions in cash for an aggregate of RMB44 million (approximately \$6.77 million) and certain initial work and business resources to JYLJ. After this capital increase, Jiangsu Yanggu has become the third largest shareholder of JYLJ. JYLJ primarily engages in wine and alcohol product merchants and customers, as well as product launch, brand showcase, marketing and promotion and it is currently in the process of developing a “Wine and Spirits” metaverse, and the amount raised through increase of share capital will be mainly used for this development.

Our principal executive offices are located at Room 1402, Richmake Commercial Building, 198-200 Queen’s Road Central, Hong Kong. Our telephone number at this address is (852) 2110-3909. Our registered office in the Cayman Islands is located at Sertus Chambers, Governors Square, Suite # 5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1-1104, Cayman Islands. Investors should contact us for any inquiries through the address and telephone number of our principal executive offices.

The SEC maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports and other information regarding issuers that file electronically with the SEC using its EDGAR system.

See “Item 5. Operating and Financial Review and Prospects — B. Liquidity and Capital Resources — Capital Expenditures” for a discussion of our capital expenditures.

## **B. Business Overview**

We are an online provider of collectible and artwork e-commerce services, which allow collectors, artists and art dealers and owners to access a much bigger art trading market where they can engage with a wider range of collectibles and artwork investors than they could likely encounter without our platforms. We currently facilitate trading by individual and institutional customers of all kinds of collectibles and artwork and certain commodities on our leading online platforms owned by our subsidiaries in Hong Kong, namely the China International Assets and Equity of Artworks Exchange Limited and HKDAEx Limited. We commenced our operations in March 2018 and our customer trading volume has been growing rapidly since then. We also provide online and offline integrated marketing, storage and technical maintenance services to our customers in China.

According to the report of “E-commerce in China 2021” released by Ministry of Commerce of People’s Republic of China on November 16, 2022, China’s e-commerce continued to grow in 2021. Data of National Bureau of Statistics of China indicates that in 2021, the national e-commerce transaction volume reached RMB 42.3 trillion (approximately \$6.13 trillion, based on the central parity rate of March 15, 2023), an increase of 19.6% year-on-year.

On many mainstream e-commerce platforms, cultural products such as arts and crafts flourished and developed rapidly, and art and collectibles e-commerce are gradually growing. Online trading has become a major trend of the global art and collectibles trade. As a comprehensive service provider with extensive cultural and art collection and collectibles market operations and marketing experience, we seize current development opportunities to provide online and offline services for the domestic and international art and collectibles trading business. We plan to build a complete art and collectibles business e-commerce service chain to serve the industry.

We provide customers of our online platform with comprehensive services, including account opening, art investment education, market information, research, real-time customer support, and artwork and collectibles warehousing services. Most services are delivered online through our proprietary client software and call center. Our client software provides not only market information and analysis, but also interactive functions including live discussion boards and instant messaging with customer service representatives, which we believe enhances our customers’ engagement. Internally, we legally collect and analyze customer behavior and communications data from our client software, customer relationship management system and the exchanges, which allow us to better understand, attract and serve our customers.

We provide industry solutions and related software products, system development and technical support services for our e-commerce platform customers.

We strive to minimize conflicts of interest with our customers, which we believe is essential for our long-term success. Under the trading rules of the two trading platforms we operate on, we do not set, quote or influence the trading prices, and cannot access our customers’ money.

## **Our Services**

We provide customers of our online platform with comprehensive services, including the following:

### *Investor Education*

We believe that investor education is critical in preparing potential customers for online collectibles and artwork trading. We have developed a set of educational programs designed to target customers with a variety of experience levels and investment preferences. Our education programs include basic rules and processes of online collectibles and artwork trading, fundamental analysis methods and technical analysis methods. Most of our educational resources are easily accessible through PC and APP versions of our client software. Certain materials are also available on our websites.

### *Market Information*

We provide comprehensive market information to our customers, including real-time price quotes, technical indicators, relevant market news and macroeconomic data and news. Market information is accessible by our customers and potential customers through PC and APP versions of our client software and our website.

### *Customer Support*

We are committed to providing high-quality customer support. Most of our services, including investor education, market information and research support services, are accessible through our client software, which we believe provides a positive experience for our customers due to its user-friendliness and easy access. Besides our client software, we have a dedicated team of customer service personnel that handles real-time customer inquiries about our software, market news and research reports, and other questions, via call, text message and online instant message.

We request that all our customer representatives conduct customer communications via our communication system that is closely monitored by us.

In addition, we receive customer complaints from time to time. To ensure that reasonable complaints made by each customer are adequately addressed and for risk management purposes, we have established a customer complaint department at our customer service center. For a complaint received, our customer compliant officer will first confirm details of the complaint with the customer and then verify the facts with the relevant department. Based on our verification results and our internal policy, we seek to resolve complaints through discussions with the customer. The complaint and our response are recorded in the CRM system, and feedback is also provided to relevant departments. We also report complaints to the compliance department, which will check for noncompliance and advise the relevant department to take rectification measures, if necessary.

### *Technology Infrastructure*

The client software and the CRM system comprise our core technology infrastructure and enable us to move each key phase of our business operation online.

### *Our Trading Platforms*

Our proprietary platform is an all-electronic trading system, consisting of host computers, client-side terminals and related communication system. Our trading system supports the trading and payment/settlement of collectibles, artworks and commodities. It is an electronic platform developed by a third-party software development company and customized for us, primarily consisting of a matching system, a transaction monitoring system, an account managing system and a settlement system.

Matching is a core function of our trading platforms. Our system concludes transactions by matching all of the transactions submitted by the traders. The transaction monitoring system is responsible for monitoring the daily transactions in real-time to ensure fairness and accuracy in our trading platforms. The settlement system verifies and reconciles daily statistical data with the banks' transaction system, and completes the registration and settlement (or payment) of collectibles or artwork units once the transaction data is verified.

Through our trading platform, we provide customers with timely and comprehensive market information, investor education programs, simulated trading, research reports, quantitative analysis tools and interactive customer support functions.

Our website [www.ocgroup.hk](http://www.ocgroup.hk) is an essential part of our trading platforms.

The website is important as it is the gateway to our trading platforms. It publishes our membership and trading rules, trading information disclosure, and product introductions, and provides services to traders, such as account management. Traders may open, close and manage their accounts with us on our website. A client-end terminal may be downloaded from our website. Through the terminal, traders may access their account with us and conduct transactions in collectibles or artwork units, such as purchasing and selling and submitting inquiries. Data transmission between the traders and our trading system is encrypted to prevent data leaks.

Our trading system hardware platform, clearing system hardware platform and disaster recovery system are hosted on Ali Cloud. The real-time data synchronization functionality which we provide ensures the safety of transaction data.

We provide industry solutions and related software products, system development and technical support services for our cooperation e-commerce platform customers.

*Offering and trading of collectibles, artwork and commodities on our platform*

Offering and trading of collectibles, artwork and commodities on our platform involves a number of parties, namely, Original Owners, Offering Agents, and Traders.

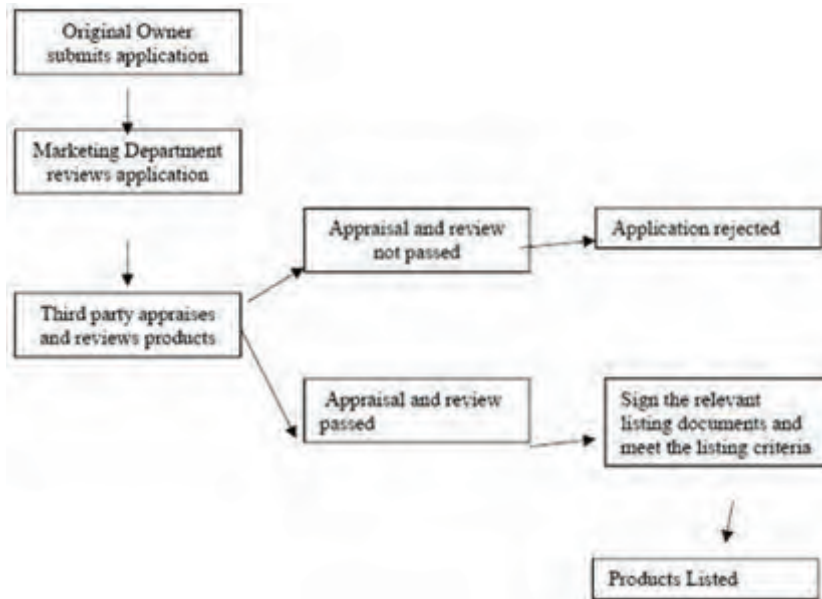
- An Original Owner is the original owner of the collectible, artwork or commodity to be offered and traded on our platform. The Original Owner must have good and marketable title to the collectible or artwork and have the right to dispose of the collectible or artwork.
- An Offering Agent is an entity that is experienced with collectibles, artwork or commodity or their investment and has a good reputation. The Offering Agent is engaged by the Original Owner to assist him or her with the offering and trading of collectibles, artwork or commodity, such as preparation of listing applications and assigning an investment value, research, organizing promotions and marketing activities, communicating with potential investors, and similar functions. In general, Kashi Longrui will carry out this business.
- A Trader is anyone who is 18 years or older or any entity that maintains a trading account with us through our electronic trading platform and participates in the trading of collectibles, artwork or commodity. Once a Trader acquires one or more units of collectibles and artwork, the Trader becomes the owner of that collectible and artwork.

Additional parties such as insurer, appraisal firm and custodian for collectibles or artwork may be retained in connection with the offering and trading of collectibles or artwork on our system.

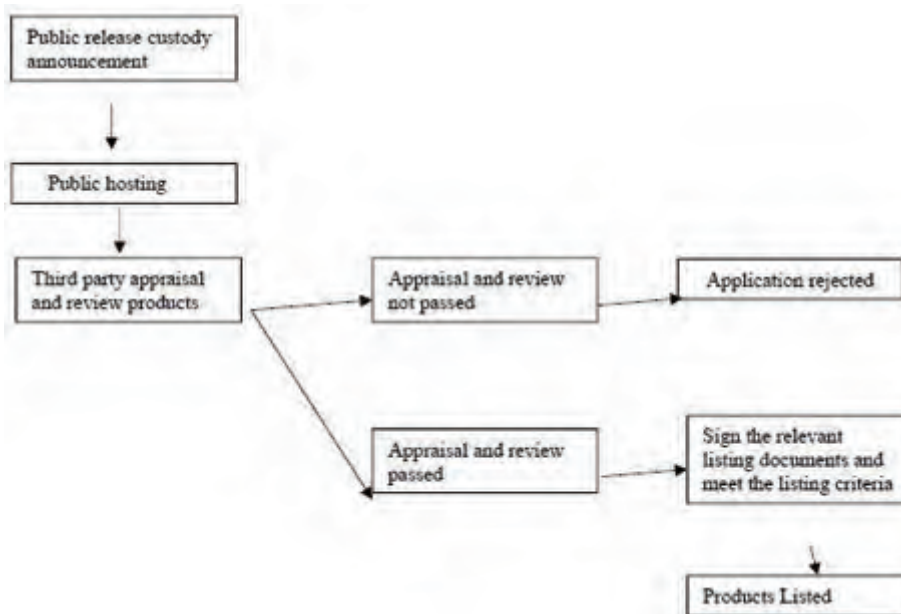
The Original Owner and the Offering Agent are required to comply with our rules in connection with the offering of collectibles, artwork or commodity. If we discover any violation, we will require that they take corrective actions. If the Offering Agent engages in fraudulent activities, such as putting out false or misleading advertisements or disclosure on the collectible, artwork or commodity, it may be barred from participating in any offering for up to two years, in addition to any legal liabilities.



For the main signer to apply for the listing, the process is as follows:



For publicly list collectibles and artworks hosted on our platforms:



We strive to minimize conflicts of interest with our customers, which we believe is essential for our long-term success. Under the trading rules of the two exchanges on which we operate, we do not set, quote or influence the trading prices, and cannot access our customers' money.

#### *Main Trading Rules for Individual Customers*

Traders log in to their own account through the customer platform for trading. The transaction application shall be deemed to be the transaction commission submitted by the dealer to the online platform. Once the transaction is completed, the ownership of the corresponding physical object will belong to the purchaser of the transaction. For the completion of physical delivery for the items, the physical holder can apply for delivery or voluntarily deposit the collectibles, artwork or commodity in a cooperative third-party storage company. The applicant for the transaction must fulfill the corresponding obligations and settle with the other party in accordance with the method determined by these rules.

We monitor and regulate the conduct of traders on a daily basis through our real-time monitoring system. If there are irregular trading activities that may affect the trading price and volume of collectible, artwork units or commodities, we will seek clarification from the trader(s) by sending inquiries and notices, conducting interviews, and the like. If there is any violation of our trading rules, we may take the following action:

- issue oral or written warnings;
- request that the trader submit a written commitment;
- issue a reprimand;
- impose a fine;
- suspend or limit trading activities; or
- revoke the qualifications of the trader.

The exchanges have not adopted any deposit-based leveraged trading system. Customers can only use the funds as they are deposited.

#### **Sales and Marketing**

Our marketing activities include promoting our brand to increase recognition, attracting new customers through targeted marketing and promoting our client software, which has a broader reach of users who might become our potential customers.

We are currently marketing our electronic trading platform through participation in culture and art exhibitions and internet advertising, both through online and traditional marketing channels. Although the in-person meetings and culture and art exhibitions were suspended in China during the outbreak of COVID-19 during the first half of 2020. In addition, travel restrictions, quarantine requirements and/or temporary closure of office buildings and facilities were imposed by local governments due to the outbreak of Omicron variant in Hong Kong and many cities in China, including Shenzhen, Xi'an, Shanghai, Guangzhou, Nanjing, Nanchang and Taiyuan in 2022. In early December 2022, Chinese government eased the strict control measure for COVID-19, which has led to surge in increased infections and disruption in our business operations in December 2022 and January 2023 and our marketing activities have been negatively impacted in the cities that governments have imposed such restrictions.

Our online marketing relies mainly on search engine marketing and displaying advertisements on portal websites. We also actively promote our client software through mobile application stores. In addition, we promote our brand and software through our corporate pages on popular interactive social media such as Weibo and WeChat.

We promote our brands through other traditional media channels such as by placing advertisements in newspapers and magazines.

We focus on investing in cost-effective marketing initiatives and continuously evaluate the effectiveness of various marketing channels to optimize the allocation of our marketing spending.

Interested persons who provide their contact information to us become our potential customers. We also promote our client software through various websites and app stores. A guest version of our software is free to download and use. Through simple online registration, people get free access to the user version of our client software and become our potential customers. We do not conduct cold calls. Additionally, we encourage existing traders to introduce new traders.

Our customer representatives interact with potential customers regarding online collectibles, artwork and commodity trading, our client software and services through call, text message and instant messaging function in our client software. Our representatives begin building relationships with our customers in anticipation that they will open trading accounts with us.

A potential customer who opens and activates a trading account with us becomes our customer. We provide more services to customers compared to potential customers, including free usage of the customer version of the client software which has richer features, as well as access to more comprehensive research reports and technical analysis tools.

### **Our Customers**

Our customers are the Traders and Original Owners. Because we have listed only 31 types of collectibles, artwork and commodities in 2022 and we are constantly marketing and increasing our customer base, it is difficult to ascertain if the loss of a single customer, or a few customers, would have a material adverse effect on us. No one customer constitutes in the aggregate 10% or more of our consolidated revenue.

Customers can open trading accounts through the online account creation link on our official websites, International Exchange and HKDAEx. Before the customer can finish opening an account, our websites provide Risks and Warnings, a Market Entry Agreement and Transaction Rules for the customer to review and confirm before they are able to move to the next steps. Our transaction rules specifies the qualification requirements for the customer to open and activate a trading account, as follows:

A trader is a person who opens a trading account with the exchange platform and participates in the trades of cultural and art collections.

#### **Trader's Qualification**

(a) Natural person. A natural person who trades cultural and art collections and commodities on the exchange platform must provide account opening information (a personal information form, a copy of passport or ID card from mainland China, Hong Kong, Macao or Taiwan) and meet the following requirements:

- 1) Meet the legal age requirement in the jurisdiction where he/she is located, and have the ability and capacity to take full civil responsibility and assume liability;
- 2) Have certain knowledge of the cultural and art collection investment market, and have certain investment experience in the cultural and art collection market;
- 3) Have a deep understanding of the trading model and investment risk of the cultural and art collections with the exchange's trading platform, and have strong risk identification ability and risk tolerance;
- 4) Have certain internet and computer operation capabilities, abide by relevant laws and regulations, and engage in cultural and art collection trading activities according to relevant laws and regulations; and
- 5) Other conditions as stipulated by the exchange.

(b) Institutions. Institutions that conduct cultural and art collection and commodities trading must provide various supporting materials (original and photocopy of corporate legal personhood certificate, business license, organization code certificate, tax registration certificate, etc.) and meet the following requirements:

- 1) Must be an enterprise, legal entity or other organization that lawfully operates under laws at home and abroad, and no law, regulatory requirement, or the rules of this exchange platform may prohibit or restrict the investment of such entity;
- 2) Have a deep understanding of the trading model and investment risk of the cultural and art collections with the exchange's trading platform, and have strong risk identification ability and risk tolerance; and
- 3) Understand the risks of investing in the cultural and art collections, and have completed the internal approval and authorization procedures stipulated by the statutes and / or company charter/bylaws.

A potential customer is required to read these rules, and click to confirm that he/she has read such rules before he/she can proceed to the next step of opening an account.

Our customer service staff will review each application and all materials submitted to ensure they are complete. Once an application is approved by the customer service manager, the customer will receive notification and obtain a trading account number and initial login password, which are automatically generated by our system.

After completion of the account opening process, a customer can link his or her personal bank account to his or her trading deposit account, which is an independent depository account under his/her trading account. We cannot access our customers' money, but we can monitor their trading activities and account balances in real time through the exchange's information system. Customers can freely withdraw funds from their accounts so long as the minimum deposit requirements for their trading positions are met. After a trading account is activated, it becomes a "tradable" account and will remain tradable until the account is closed. We define "active" accounts as tradable accounts that have executed at least one trade during a relevant period.

We believe that the growth of tradable accounts and active accounts, combined with our strategy to focus on premier customers, has historically contributed to the significant growth of our trading volume.

### **Competition**

The art e-commerce market is highly competitive and many traditional art galleries and auction houses may provide a platform for collectibles or artwork owners to sell their collections. However, their trading model is substantially different from ours. As of December 31, 2022, there were over 10 active art e-commerce platforms operating nationwide in China. The trading service providers compete with each other for customers and trading volume based on factors including brand, technology, research and customer services.

### **Intellectual Property**

We regard our trademarks, domain names, know-how, proprietary technologies and similar intellectual property as critical to our success, and we rely on trademark law, trade secret law and confidentiality and invention assignment agreements with our employees and others to protect our proprietary rights.

We have one registered trademark in China that we acquired from a third party. This trademark is a graphic trademark with registration No. 5120703. We submitted the transfer documents to the Trademark Office of the State Administration for Industry and Commerce of the PRC on January 29, 2019, and the transfer of ownership to us was completed on July 6, 2019.

We have one software copyright registration and own 6 domain names. The software copyright name is "Entrusted Warehouse Management System V1.0." which has been upgraded in 2021. We also own the software for our app which has not been registered with Copyright Protection Center of China.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our intellectual property. Monitoring unauthorized use of our intellectual property is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation of our intellectual property. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources.

In addition, third parties may initiate litigation against us alleging infringement of their proprietary rights or declaring their non-infringement of our intellectual property rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business could be harmed. Moreover, even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations.

See “*Risk Factors—Risks Related to Our Business—We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.*” and “*We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.*”

## **Regulations**

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China and Hong Kong.

### **PRC Regulations**

#### **PRC Laws and Regulations relating to Foreign Investment**

##### *The PRC Foreign Investment Law*

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law, which has taken effect on January 1, 2020 and replaced three existing laws on foreign investments in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies a regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic invested enterprises in China. The Foreign Investment Law establishes the basic framework for the access to, and the promotion, protection and administration of foreign investments in view of investment protection and fair competition.

According to the Foreign Investment Law, “foreign investment” refers to investment activities directly or indirectly conducted by one or more natural persons, business entities, or otherwise organizations of a foreign country (collectively referred to as “foreign investor”) within China, and the investment activities include the following situations: (i) a foreign investor, individually or collectively with other investors, establishes a foreign-invested enterprise within China; (ii) a foreign investor acquires stock shares, equity shares, shares in assets, or other like rights and interests of an enterprise within China; (iii) a foreign investor, individually or collectively with other investors, invests in a new project within China; and (iv) investments in other means as provided by laws, administrative regulations, or the State Council.

According to the Foreign Investment Law, the State Council will publish or approve to publish a catalogue for special administrative measures, or the “Negative List.” The Foreign Investment Law grants national treatment to foreign invested entities, except for those foreign invested entities that operate in industries deemed to be either “restricted” or “prohibited” in the “Negative List”. However, it is unclear whether any updated “Negative List” to be published by the State Council in the future will be different from the current Special Administrative Measures for Market Access of Foreign Investment (Negative List) promulgated by the NDRC and the MOFCOM on December 27, 2021. The Foreign Investment Law provides that foreign invested entities operating in foreign restricted or prohibited industries will require market entry clearance and other approvals from relevant PRC governmental authorities.

Furthermore, the Foreign Investment Law provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the Foreign Investment Law.

In addition, the Foreign Investment Law also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their commitments to the foreign investors; foreign-invested enterprises are allowed to issue stocks and corporate bonds; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriation or requisition of the investment of foreign investors is prohibited; mandatory technology transfer is prohibited; and the capital contributions, profits, capital gains, proceeds out of asset disposal, licensing fees of intellectual property rights, indemnity or compensation legally obtained, or proceeds received upon settlement by foreign investors within China, may be freely remitted inward and outward in RMB or a foreign currency. Also, foreign investors or the foreign investment enterprise should be imposed legal liabilities for failing to report investment information in accordance with the requirements.

### *Regulations on Overseas Listings*

On February 17, 2023, the CSRC released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Enterprises (the “New Overseas Listing Rules”) with five interpretive guidelines, which will take effect on March 31, 2023. The New Overseas Listing Rules require Chinese domestic enterprises to complete filings with relevant governmental authorities and report related information under certain circumstances, such as: a) an issuer making an application for initial public offering and listing in an overseas market; b) an issuer making an overseas securities offering after having been listed on an overseas market; c) a domestic company seeking an overseas direct or indirect listing of its assets through single or multiple acquisition(s), share swap, transfer of shares or other means. According to the Notice on Arrangements for Overseas Securities Offering and Listing by Domestic Enterprises, published by the CSRC on February 17, 2023, a company that (i) has already completed overseas listing or (ii) has already obtained the approval for the offering or listing from overseas securities regulators or exchanges but has not completed such offering or listing before effective date of the new rules and completes such offering or listing before September 30, 2023 will be considered as an existing listed company and is not required to make any filing until it conducts a new offering in the future. Furthermore, upon the occurrence of any of the material events specified below after an issuer has completed its offering and listed its securities on an overseas stock exchange, the issuer shall submit a report thereof to the CSRC within 3 working days after the occurrence and public disclosure of the event: (i) change of control; (ii) investigations or sanctions imposed by overseas securities regulatory agencies or other competent authorities; (iii) change of listing status or transfer of listing segment; or (iv) voluntary or mandatory delisting.

### *Negative List Relating to Foreign Investment*

Investment activities in the PRC by foreign investors are principally governed by the Guidance Catalog of Industries for Foreign Investment promulgated and as amended from time to time by MOFCOM and National Development and Reform Commission (the “NDRC”) and MOFCOM. The NDRC and the MOFCOM promulgated the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Edition) (the “2021 National Negative List”) and the Special Administrative Measures (Negative List) for Foreign Investment Access in Pilot Free Trade Zones (2021 Edition) (the “2021 FTZ Negative List”) (collectively the “2021 Negative Lists”) on December 27, 2021, which took effect on January 1, 2022. Industries listed in the 2021 Negative Lists are divided into two categories: restricted and prohibited. Industries not listed in the 2021 Negative Lists are generally deemed as constituting a third “permitted” category. Establishment of wholly foreign-owned enterprises is generally allowed in permitted industries. Some restricted industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, restricted category projects are subject to higher-level government approvals. Foreign investors are not allowed to invest in industries in the prohibited category. Industries not listed in the Negative List are generally open to foreign investment unless specifically restricted by other PRC regulations.

Though the business we conduct through the variable interest entity is not within the category in which foreign investment is currently restricted or prohibited under the Negative List or other PRC Laws, we expect that in the future Jiangsu Yanggu will engage in marketing survey services for online marketplaces. Marketing survey services are within the category in which foreign investment is restricted pursuant to the Negative List. In addition, we intend to centralize our management and operation in the PRC to avoid being restricted from conducting certain business activities which are important for our current or future business but are currently restricted or might be restricted in the future. As such, we believe the VIE agreements between the WFOE and the variable interest entity are necessary and essential for our business operations without the equity ownership of VIE. These contractual arrangements with the variable interest entity and its shareholders enable us to exercise effective control over the variable interest entity and hence consolidate their financial results as the VIE without being deemed as a foreign invested company.

### **PRC Laws and Regulations relating to Wholly Foreign-owned Enterprises**

The establishment, operation and management of corporate entities in China are governed by the PRC Company Law, which was promulgated by the Standing Committee of the National People’s Congress on December 29, 1993 and became effective on July 1, 1994. It was last amended on October 26, 2018 and the amendments became effective on the same day. Under the PRC Company Law, companies are generally classified into two categories, namely, limited liability companies and joint stock limited companies. The PRC Company Law also applies to limited liability companies and joint stock limited companies with foreign investors. Where there are otherwise different provisions in any law on foreign investment, such provisions shall prevail. The Law of the PRC on Wholly Foreign-invested Enterprises was promulgated and became effective on April 12, 1986, and was last amended and became effective on October 1, 2016. The Implementing Regulations of the PRC Law on Foreign-invested Enterprises were promulgated by the State Council on October 28, 1990. They were last amended on February 19, 2014 and the amendments became effective on March 1, 2014. The Provisional Measures on Administration of Filing for Establishment and Change of Foreign Investment Enterprises were promulgated by MOFCOM and became effective on October 8, 2016, and were last amended on July 20, 2017 with immediate effect. The above-mentioned laws formed the legal framework for the PRC Government to regulate the WFOEs. These laws and regulations governed the establishment, modification, including changes to registered capital, shareholders, corporate form, merger and split, dissolution and termination of the WFOEs before January 1, 2020. On January 1, 2020, the Law of the PRC on Wholly Foreign-invested Enterprises and the Implementing Regulations of the PRC Law on Foreign-invested Enterprises were abolished by the Foreign Investment Law and its implementing rules, the Provisional Measures on Administration of Filing for Establishment and Change of Foreign Investment Enterprises was replaced by the Measures of Foreign Investment Information Report promulgated by MOFCOM on December 30, 2019 (effective as of January 1, 2020).

According to the above regulations, a WFOE should get approval by or filed with MOFCOM before its establishment and operation. Nanjing Rongke Business Consulting Service Co., Ltd. is a WFOE since established, and has filed with the local administration of MOFCOM. Its establishment and operation are in compliance with the above-mentioned laws.

## **PRC Laws and Regulations Related to Art Trading and Related Service Industry**

### *PRC Law relating to Property Rights*

The Civil Code of the People's Republic of China ("Civil Code") was released on May 28, 2020 and became effective on January 1, 2021, which has replaced Property Right Law of China. According to The Civil Code, the creation and transfer of property rights in movable property shall be effective upon delivery. But if the parties have agreed that the transferor may continue to take possession of the property, the property right shall be effective when the agreement takes effect. According to our Trading Rules, the owner of collectibles or artworks shall entrust our cooperative warehousing company to hold and transport the collectibles or artworks sold on our platform. In practice, the winning bidder will receive delivery of the order on our platform after bid closing, and can collect the collectibles or artwork at the cooperative warehousing company by showing the delivery order. The delivery order is treated as the agreement between the owner of the collectibles or artwork and the bid winner to transfer the property rights in the collectibles or artwork. Accordingly, upon the winning bidder's receipt of the delivery order, the winning bidder owns the property rights of the collectibles or artworks purchased on our platform.

### *PRC Laws and Regulations relating to Trading Exchange*

According to "Decision Of The State Council On Cleaning Up And Rectifying Various Trading Places And Taking Effective Precautions Against Financial Risks" ("Decision No. 38") promulgated by the State Council of the PRC on November 11, 2011 and effective on the same day, and "Opinions Of The General Office Of The State Council On The Implementation Of The Clean-Up And Rectification Of Various Trading Venues" ("Opinion No. 37") promulgated by the General Office of the State Council of the PRC on July 12, 2012 and effective on the same day, any trading places and their branches that violate any of the following provisions shall be cleaned up and rectified. Such parties must not

- (1) Divide any equity into equal shares for public offering. An "equal share public offering" is when a trading place uses its services and facilities to divide its equity into equal shares and sell them to investors. The relevant provisions of the company law and the securities law shall apply to the public issuance of shares by a joint stock company.
- (2) Adopt centralized trading. The "centralized trading methods" referred to in this opinion include collective bidding, continuous bidding, electronic matching, anonymous trading, market makers and other trading methods, except for agreement transfers and legal auctions.
- (3) Continuously list and trade the rights and interests in accordance with standardized trading units. The "standardized trading unit" referred to in this opinion refers to the minimum trading unit set for other equities other than equity, and trading at the minimum trading unit or integer multiples thereof. "Continuous listing transaction" refers to listing and selling the same trading variety within 5 trading days after buying or listing, and buying the same trading variety within 5 trading days after selling.

- (4) Have a cumulative number of equity holders exceeding 200. Except as otherwise provided for by laws and administrative regulations, the cumulative number of actual holders of any equity shall not exceed 200 during the term of the company's existence, no matter by the way of issuance or transfer.
- (5) Carry out standardized contract trading by centralized trading. The "standardized contract" referred to in this opinion includes two situations: one is a unified contract established by the trading place with fixed terms other than price, which stipulates the delivery of a certain amount of the subject matter at a certain time and place in the future. The other is a contract made by the exchange that gives the buyer the right to buy or sell the agreed subject matter at a specified price at a certain time in the future.
- (6) Without the approval of the relevant financial administrative department of the state council, establish either trading places for the trading of financial products such as insurance, credit and gold, or use any other existing trading places for the trading of financial products such as insurance, credit and gold.

Additionally, according to "Notice Concerning The Issuance Of Minutes Of The Special Session On The Clean-Up And Rectification Of Stamp And Commemorative Coins Trading Places" promulgated by the Office of the Joint Meeting on August 2, 2017, any stamps, coins and magcards using a stock issuance-like model to trading places mainly trading stamps by a concentrated bidding and "T+0" transaction method should cease to operate. The stamps, coins and magcards being illegally traded must be made off-line in time. Trading places which have ceased operations shall not re-start operating unless they obtain approval from the provincial government and complete the required filing with the Joint Meeting. Provincial governments should re-evaluate the necessity of transactions of stamps, coins and magcards, considering the development and interests of the economic society, as well as risks, efficiencies and costs. Provided that a provincial government does considers it necessary to maintain transactions of stamps, coins and magcards, the provincial government may appoint a stamps, coins and magcards exchange to organize stamps, coins and magcards transactions by way of transfer of property through agreements. Such exchange must have obtained permission from the provincial government, passed the examination and acceptance check of the provincial government and completed filings at relevant joint meetings. In addition, such exchange must be in strict compliance with Decision No.38 and Opinion No.37, shall not adopt or allow concentrated bidding or other types of centralized trading, and the interval between sale and purchase of a same commodity shall not be less than 5 trading days.

Measures Of Jiangsu Province on The Supervision and Administration of Trading Exchanges ("Jiangsu Trading Exchange Measures") were issued by the Jiangsu Financial Supervision Bureau on March 1, 2023. According to Jiangsu Trading Exchange Measures, trading exchanges that are established in the administrative region of the Jiangsu province with its name contains the words "exchange" or "trading center" engaging in equity or commodity trading, excluding vehicles and real estate trading places and trading exchanges of financial products approved by the financial management department of the State Council are subject to this Jiangsu Trading Exchange Measures and shall obtain prior approval. The branch offices of the trading exchanges from other provinces are subject to these measures as well. The subsidiaries of the VIE in China do not use any name of trading center or trading exchange and they only provide maintenance, supporting and warehouse services to the trading platforms in Hong Kong.

Additionally, there is a Notice On Further Strengthening The Supervision Of All Kinds Of Trading Places In The Province, released by Jiangsu Financial Office on July 25, 2016, according to which, the "accredited investor" in any trading place should meet the following criteria and provide assets proof when opening an account:

- (1) The investor's available fund balance at the time of opening an escrow account shall not be less than RMB 500,000 (approximately \$70,000); and
- (2) The market value of the investor's assets shall not be less than RMB 2 million (approximately \$290,000).

Also, all of the trading places in Jiangsu must use Jiangsu Exchange Depository and Clearing Co., Ltd. ("JS Clearing") to register investors and investment information and settle investors' funds.



## Regulations on Intellectual Property Rights

The PRC has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents, trademarks and domain names.

**Copyrights.** The Copyright Law was adopted in 1990 and amended in 2001, 2010 and 2020. The amended version in 2020 came into effect on June 1, 2021. The amended Copyright Law extends copyright protection to internet activities, products disseminated over the internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. The amended Copyright Law also requires registration of a copyright pledge. According to the Copyright Law, an infringer will be subject to various civil liabilities, which include stopping the infringement, eliminating the damages, apologizing to the copyright owners and compensating the losses of copyright owners. The Copyright Law further provides that the infringer must compensate the actual loss suffered by the copyright owner. If the actual loss of the copyright owner is difficult to calculate, the illegal income received by the infringer as a result of the infringement will be deemed as the actual loss or if such illegal income is also difficult to calculate, the court can decide the amount of the actual loss up to RMB5,000,000. Under the Copyright Law, the term of protection for copyrighted software of legal persons is 50 years and ends on December 31 of the 50<sup>th</sup> year from the date of first publishing of the software.

**Patents.** The Patent Law of the PRC promulgated in December 2008, which became effective in October 2009 and was recently amended by the Standing Committee of the National People's Congress of China on October 17, 2020 and became effective on June 1, 2021, provides for patentable inventions, utility models and designs. An invention or utility model for which patents may be granted shall have novelty, creativity and practical applicability. The State Intellectual Property Office under the State Council is responsible for examining and approving patent applications. The protection period is 20 years for inventions and 10 years for utility models and designs, all of which commence from the date of application of patent rights. The protection period has been slightly amended in recent amendment which became effective on June 1, 2021. The terms of protection for invention and utility patents will still be 20 years and 10 years, respectively, in general. The term of protection for a design patent will be extended from 10 years to 15 years. In addition, for invention patents, in situations where a patent is only granted after 4 years or more from its filing date or 3 years or more after a request for substantive examination date, the applicant can request for an extension of protection term for any unreasonable delay.

**Trademarks.** The Trademark Law of the PRC promulgated in August 2013 which took effect in May 2014 (the "Trademark Law") and was last amended on April 23, 2019 which became effective on November 11, 2019. Its implementation rules protect registered trademarks. The Trademark Office of National Intellectual Property Administration, PRC, formerly the PRC Trademark Office of the State Administration of Market Regulation is responsible for the registration and administration of trademarks throughout the PRC. The Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. The validity period of registered trademarks is 10 years from the date of approval of trademark application, and may be renewed for another 10 years provided relevant application procedures have been completed within 12 months before the end of the validity period.

**Domain Names.** Domain names are protected under the Administrative Measures for the Internet Domain Names of the PRC promulgated by the Ministry of Industry and Information Technology of the PRC effective on December 20, 2004 and the Administrative Measures for Internet Domain Names promulgated by MIIT, effective on November 1, 2017 (the "Domain Name Measures"). MIIT is the major regulatory body responsible for the administration of the PRC internet domain names. The Domain Names Measures has adopted a "first-to-file" principle with respect to the registration of domain names.

## PRC Laws and Regulations Relating to Mergers and Acquisitions

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. Our PRC counsel has advised us based on their understanding of the current PRC laws, rules and regulations that the CSRC's approval should not be required for the listing and trading of our ordinary shares on NASDAQ, given that: (i) we established our PRC subsidiary, the WFOE, by means of direct investment rather than by merger with or acquisition of PRC domestic companies; and (ii) no explicit provision in the M&A Rules classifies the respective contractual arrangements between the WFOE, Jiangsu Yanggu and its shareholders as a type of acquisition transaction falling under the M&A Rules.

## PRC Laws and Regulations Relating to Foreign Exchange

### *General administration of foreign exchange*

The principal regulation governing foreign currency exchange in the PRC is the *Administrative Regulations of the PRC on Foreign Exchange* (the “Foreign Exchange Regulations”), which were promulgated on January 29, 1996, became effective on April 1, 1996 and were last amended on August 5, 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade- and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless prior approval by competent authorities for the administration of foreign exchange is obtained. Under the Foreign Exchange Regulations, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE to pay dividends by providing certain evidentiary documents, including board resolutions, tax certificates, or for trade- and services-related foreign exchange transactions, by providing commercial documents evidencing such transactions.

### *Circular No. 75, Circular No. 37 and Circular No. 13*

Circular 37 was released by SAFE on July 4, 2014 and abolished Circular 75 which had been in effect since November 1, 2005. Pursuant to Circular 37, a PRC resident should apply to SAFE for foreign exchange registration of overseas investments before it makes any capital contribution to a special purpose vehicle, or SPV, using his or her legitimate domestic or offshore assets or interests. SPVs are offshore enterprises directly established or indirectly controlled by domestic residents for the purpose of investment and financing by utilizing domestic or offshore assets or interests they legally hold. Following any significant change in a registered offshore SPV, such as capital increase, reduction, equity transfer or swap, consolidation or division involving domestic resident individuals, the domestic individuals shall amend the registration with SAFE. Where an SPV intends to repatriate funds raised after completion of offshore financing to the PRC, it shall comply with relevant PRC regulations on foreign investment and foreign debt management. A foreign-invested enterprise established through return investment shall complete relevant foreign exchange registration formalities in accordance with the prevailing foreign exchange administration regulations on foreign direct investment and truthfully disclose information on the actual controller of its shareholders.

If any shareholder who is a PRC resident (as determined by the Circular No. 37) holds any interest in an offshore SPV and fails to fulfil the required foreign exchange registration with the local SAFE branches, the PRC subsidiaries of that offshore SPV may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities. The offshore SPV may also be restricted in its ability to contribute additional capital to its PRC subsidiaries. Where a domestic resident fails to complete relevant foreign exchange registration as required, fails to truthfully disclose information on the actual controller of the enterprise involved in the return investment or otherwise makes false statements, the foreign exchange control authority may order them to take remedial actions, issue a warning, and impose a fine of less than RMB 300,000 (approximately \$43,000) on an institution or less than RMB 50,000 (approximately \$7,000) on an individual.

Circular 13 was issued by SAFE on February 13, 2015, and became effective on June 1, 2015. Pursuant to Circular 13, a domestic resident who makes a capital contribution to an SPV using his or her legitimate domestic or offshore assets or interests is no longer required to apply to SAFE for foreign exchange registration of his or her overseas investments. Instead, he or she shall register with a bank in the place where the assets or interests of the domestic enterprise in which he or she has interests are located if the domestic resident individually seeks to make a capital contribution to the SPV using his or her legitimate domestic assets or interests; or he or she shall register with a local bank at his or her permanent residence if the domestic resident individually seeks to make a capital contribution to the SPV using his or her legitimate offshore assets or interests.

As of the date of this report, the individual shareholders of Jiangsu Yanggu known as Chinese citizens, who also owned our shares, have completed registrations in accordance with Circular 37.

### *Circular 19 and Circular 16*

Circular 19 was promulgated by SAFE on March 30, 2015, and became effective on June 1, 2015. According to Circular 19, foreign exchange capital of foreign-invested enterprises shall be granted the benefits of Discretionary Foreign Exchange Settlement (“Discretionary Foreign Exchange Settlement”). With Discretionary Foreign Exchange Settlement, foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau, or for which book entry registration of monetary contribution has been completed by the bank, can be settled at the bank based on the actual operational needs of the foreign-invested enterprise. The allowed Discretionary Foreign Exchange Settlement percentage of the foreign exchange capital of a foreign-invested enterprise has been temporarily set to be 100%. The Renminbi converted from the foreign exchange capital will be kept in a designated account and if a foreign-invested enterprise needs to make any further payment from such account, it will still need to provide supporting documents and to complete the review process with its bank. Furthermore, Circular 19 stipulates that foreign-invested enterprises shall make bona fide use of their capital for their own needs within their business scopes. The capital of a foreign-invested enterprise and the Renminbi if obtained from foreign exchange settlement shall not be used for the following purposes:

- directly or indirectly used for expenses beyond its business scope or prohibited by relevant laws or regulations;
- directly or indirectly used for investment in securities unless otherwise provided by relevant laws or regulations;
- directly or indirectly used for entrusted loan in Renminbi (unless within its permitted scope of business), repayment of inter-company loans (including advances by a third party) or repayment of bank loans in Renminbi that have been sub-lent to a third party; and
- directly or indirectly used for expenses related to the purchase of real estate that is not for self-use (except for foreign-invested real estate enterprises).

Circular 16 was issued by SAFE on June 9, 2016. Pursuant to Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. Circular 16 provides an integrated standard for conversion of foreign exchange capital items (including but not limited to foreign currency capital and foreign debts) on a self-discretionary basis applicable to all enterprises registered in the PRC. Circular 16 reiterates the principle that an enterprise’s Renminbi converted from foreign currency denominated capital may not be directly or indirectly used for purposes beyond its business scope or purposes prohibited by PRC laws or regulations, and such converted Renminbi shall not be provided as loans to nonaffiliated entities.

Circulars 16 and 19 address foreign direct investments into the PRC, and stipulate the procedures applicable to foreign exchange settlement. If and when proceeds in foreign currency raised in any offering are settled to RMB, our WFOE would be subject to Circular 19 or Circular 16.

### *Dividend distribution*

The Foreign Investment Law, promulgated in March 15, 2019 and became effective on January 1, 2020, and the Implementation Regulations for the Foreign Investment Law, promulgated in December 26, 2019 and became effective on January 1, 2020, are the key regulations governing distribution of dividends of foreign-invested enterprises.

According to these regulations, a wholly foreign-owned enterprise in China, or a WFOE, may pay dividends only out of its accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a WFOE is required to allocate at least 10% of its accumulated after-tax profits each year, if any, to statutory reserve funds unless its reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends. The proportional ratio for withdrawal of rewards and welfare funds for employees shall be determined at the discretion of the WFOE. Profits of a WFOE shall not be distributed before the losses thereof before the previous accounting years have been made up. Any undistributed profit for the previous accounting years may be distributed together with the distributable profit for the current accounting year.

In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration pursuant to Circular 37 and Circular 13, the PRC subsidiaries of that special purpose vehicle may be prohibited from making distributions of profit to the offshore parent and from carrying out subsequent cross-border foreign exchange activities and the special purpose vehicle may be restricted in their ability to contribute additional capital into its PRC subsidiary. And, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion, including (i) up to 30% of the total amount of foreign exchange remitted overseas and deemed to have been evasive and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive. Furthermore, the persons-in-charge and other persons at our PRC subsidiaries who are held directly liable for the violations may be subject to criminal sanctions. These regulations apply to our direct and indirect shareholders who are PRC residents and may apply to any offshore acquisitions and share transfer that we make in the future if our shares are issued to PRC residents. See “*Risk Factors—Risks Related to Doing Business in China—PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiary’s ability to increase its registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law.*”

## **PRC Laws and Regulations relating to Taxation**

### *Enterprise Income Tax*

The *Enterprise Income Tax Law of the People’s Republic of China* (the “EIT Law”) was promulgated by the Standing Committee of the National People’s Congress on March 16, 2007 and became effective on January 1, 2008, and was most recently amended on December 29, 2018 (also the effective date). The *Implementation Rules of the EIT Law* (the “Implementation Rules”) were promulgated by the State Council on December 6, 2007 and became effective on January 1, 2008. According to the EIT Law and the Implementation Rules, enterprises are divided into resident enterprises and non-resident enterprises. Resident enterprises shall pay enterprise income tax on their incomes obtained in and outside the PRC at the rate of 25%. Non-resident enterprises setting up institutions in the PRC shall pay enterprise income tax on the incomes obtained by such institutions in and outside the PRC at the rate of 25%. Non-resident enterprises with no institutions in the PRC, and non-resident enterprises whose incomes having no substantial connection with their institutions in the PRC, shall pay enterprise income tax on their incomes obtained in the PRC at a reduced rate of 10%.

The *Arrangement between China Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income* (the “Arrangement”) was promulgated by the State Administration of Taxation (“SAT”) on August 21, 2006 and came into effect on December 8, 2006. According to the Arrangement, a company incorporated in Hong Kong will be subject to withholding tax at the lower rate of 5% on dividends it receives from a company incorporated in the PRC if it holds a 25% interest or more in the PRC company. The *Notice on the Understanding and Identification of the Beneficial Owners in the Tax Treaty* (the “Notice”) was promulgated by SAT and became effective on October 27, 2009. According to the Notice, a beneficial ownership analysis will be used based on a substance-over-form principle to determine whether or not to grant tax treaty benefits.

The WFOE, Jiangsu Yanggu and its subsidiaries are resident enterprises and pay EIT tax at the rate of 25% in PRC. It is more likely than not that the Company and its offshore subsidiary would be treated as a non-resident enterprise for PRC tax purposes. Please see Section of “*Taxation - People’s Republic of China Enterprise Taxation*”.

### *Value-added Tax and Business Tax*

The *Provisional Regulations on Value-Added Tax of the PRC* (the “VAT Regulations”) were promulgated by the State Council on December 13, 1993 and took effect on January 1, 1994, which were last amended on November 19, 2017. The *Rules for the Implementation of the Provisional Regulations on Value Added Tax of the PRC* (the “Rules”) were promulgated by the Ministry of Finance (“MOF”) on December 25, 1993 and were last amended on October 28, 2011. Pursuant to the VAT Regulations and the Rules, entities or individuals in the PRC engaged in the sale of goods, the provision of processing, repairs and replacement services and the importation of goods are required to pay VAT, on the value added during the course of the sale of goods or provision of services. Unless otherwise specified, the applicable VAT rate for the sale or importation of goods and provision of processing, repair and replacing services is 17%. On April 4, 2018, the Ministry of Finance and the State Administration of Taxation issued the Notice on Adjustment of VAT Rates, which came into effect on May 1, 2018. According to the abovementioned notice, the taxable goods previously subject to VAT rates of 17% and 11%, respectively, become subject to lower VAT rates of 16% and 10%, respectively, starting from May 1, 2018. Furthermore, according to the Announcement on Relevant Policies for Deepening Value-added Tax Reform jointly promulgated by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, which became effective on April 1, 2019, the taxable goods previously subject to VAT rates of 16% and 10%, respectively, become subject to lower VAT rates of 13% and 9%, respectively, starting from April 1, 2019.

The SAT and the MOF jointly promulgated the *Circular on Comprehensively Promoting the Pilot Program of the Collection of Valued-added Tax in lieu of Business Tax* on March 23, 2016, which became effective on 1 May 2016. Pursuant to the pilot plan and relevant notices, VAT is generally imposed in lieu of business tax in certain service industries, including technology services and advertising services, on a nationwide basis. VAT of a rate of 6% applies to revenue derived from the provision of certain services. Certain small taxpayers under PRC law are subject to reduced value-added tax at a rate of 3%. Unlike business tax, a taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the services provided.

According to the above-regulations, our PRC subsidiary and consolidated affiliated entities are generally subject to a 6% VAT rate.

#### *Dividend Withholding Tax*

The Enterprise Income Tax Law provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to an *Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes* (“Double Tax Avoidance Arrangement”) and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the *Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties* (the “SAT Circular 81”) issued on February 20, 2009 by SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

According to the *Circular on Several Questions regarding the “Beneficial Owner” in Tax Treaties*, which was issued on February 3, 2018 by the SAT and took effect on April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of his or her income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the *Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements*.

#### **PRC Laws and Regulations relating to Employment and Social Welfare**

##### *Labor Law of the PRC*

Pursuant to the Labor Law of the PRC, which was promulgated by the Standing Committee of the NPC on July 5, 1994 with an effective date of January 1, 1995 and was last amended on December 29, 2018 and the Labor Contract Law of the PRC, which was promulgated on June 29, 2007, became effective on January 1, 2008 and was last amended on December 28, 2012, with the amendments coming into effect on July 1, 2013, enterprises and institutions shall ensure the safety and hygiene of a workplace, strictly comply with applicable rules and standards on workplace safety and hygiene in China, and educate employees on such rules and standards.

Furthermore, employers and employees shall enter into written employment contracts to establish their employment relationships. Employers are required to inform their employees about their job responsibilities, working conditions, occupational hazards, remuneration and other matters with which the employees may be concerned. Employers shall pay remuneration to employees on time and in full accordance with the commitments set forth in their employment contracts and with the relevant PRC laws and regulations. Jiangsu Yanggu and its subsidiaries have entered into written employment contracts with all of the employees and performed its obligations required under the relevant PRC laws and regulations.

## *Social Insurance and Housing Fund*

Pursuant to the *Social Insurance Law of the PRC*, which was promulgated by the Standing Committee of the NPC on October 28, 2010 and became effective on July 1, 2011, and was last amended on December 29, 2018, with the amendments coming into effect on the same day, employers in the PRC shall provide their employees with welfare schemes covering basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance, and occupational injury insurance. Without force majeure reasons, employers must not suspend or reduce their payment of social insurance for employees, otherwise, competent governmental authorities will have the power to enforce employers to pay up social insurance within a prescribed time limit, and a fine of 0.05% of the unpaid social insurance will be charged on the part of the employers per day commencing from the first day of default. Provided that the employers still fail to make the payment within the prescribed time limit, a fine of over one time and up to three times of the unpaid sum of social insurance will be charged.

In accordance with the *Regulations on Management of Housing Provident Fund*, which were promulgated by the State Council on April 3, 1999 and last amended on March 24, 2019, employers must register at the designated administrative centers and open bank accounts for depositing employees' housing funds. Employer and employee are also required to pay and deposit housing funds, with an amount no less than 5% of the monthly average salary of the employee in the preceding year in full and on time. Employers must not suspend or reduce the payment of house provident funds for their employees. Under the circumstances where financial difficulties do exist due to which an employer is unable to pay or pay up house provident funds, permission of labor union of the employer and approval of the local house provident funds commission must first be obtained before the employer can suspend or reduce their payment of house provident funds. Where an employer does not open accounts of house provident funds for its employees, the relevant authorities will have the power to demand such employer to do so within a prescribed period, failure of which can result in a fine of over RMB 10,000 (approximately \$1,500) and up to RMB 50,000 (approximately \$7,000) charged on the employer. Moreover, under the cases where competent authorities have given notice to the employer for paying up house provident funds but the employer still fails to do so, an application for enforcement can be filed to the court in this regard.

## **PRC Laws and Regulations Related to internet information security and privacy protection**

### *The PRC Civil Code*

On May 28, 2020, the National People's Congress of the PRC issued the PRC Civil Code, which became effective on January 1, 2021. The PRC Civil Code stipulates that the personal information of a natural person shall be protected by the law. Any organization or individual shall legally obtain the personal information of others when necessary and ensure the safety of such personal information, and shall not illegally collect, use, process or transmit the personal information of others, or illegally buy or sell, provide or make public the personal information of others.

### *Cybersecurity Law of the PRC*

On November 7, 2016, the Standing Committee of the National People's Congress of the PRC (the "SCNPC") promulgated the Cybersecurity Law of the PRC ("Cybersecurity Law") which became effective on June 1, 2017. Under this law, network operators must provide cybersecurity protection and protect the integrity, confidentiality and availability of network data. The Cybersecurity Law also standardizes the collection and usage of personal information and requires network operators to protect users' privacy security. If a network operator violates the Cybersecurity Law, it can face various penalties, including but not limited to warning, confiscation of illegal earnings, suspension of related business for rectification, shutting down its websites, and revocation of its business license or relevant permits, all of which may be imposed by the relevant authority, along with fines of up to RMB 1 million (approximately \$146,000) depending on the severity of the circumstances.

On February 15, 2022, Cybersecurity Review Measures published by Cyberspace Administration of China or the CAC, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Public Security, Ministry of State Security, Ministry of Finance, Ministry of Commerce, People's Bank of China, State Administration of Radio and Television, China Securities Regulatory Commission, State Secrecy Administration and State Cryptography Administration became effective, which provides that, Critical Information Infrastructure Operators ("CIIOs") that intend to purchase internet products and services and Online Platform Operators engaging in data processing activities that affect or may affect national security shall be subject to the cybersecurity review by the Cybersecurity Review Office. On November 14, 2021, CAC published the Administration Measures for Cyber Data Security (Draft for Public Comments), or the "Cyber Data Security Measure (Draft)", which requires cyberspace operators with personal information of more than 1 million users who want to list abroad to file a cybersecurity review with the Office of Cybersecurity Review. On April 2, 2022, the CSRC released the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), which provide that a domestic company that seeks to offer and list its securities in a overseas market shall strictly abide by applicable PRC laws and regulations, enhance legal awareness of keeping state secrets and strengthening archives administration, institute a sound confidentiality and archives administration system, and take necessary measures to fulfill confidentiality and archives administration obligations.

### *Measures for the Security Assessment of Data Cross-border Transfer*

On July 7, 2022, CAC promulgated the Measures for the Security Assessment of Data Cross-border Transfer, effective on September 1, 2022, which requires the data processors to apply for data cross-border security assessment coordinated by the CAC under the following circumstances: (i) any data processor transfers important data to overseas; (ii) any critical information infrastructure operator or data processor who processes personal information of over 1 million people provides personal information to overseas; (iii) any data processor who provides personal information to overseas and has already provided personal information of more than 100,000 people or sensitive personal information of more than 10,000 people to overseas since January 1st of the previous year and ; and (iv) other circumstances under which the data cross-border transfer security assessment is required as prescribed by the CAC.

### *Personal Information Protection Law of the PRC*

On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law of the People's Republic of China (the "Personal Information Protection Law"), effective from November 1, 2021. The Personal Information Protection Law requires, among others, that (i) the processing of personal information should have a clear and reasonable purpose which should be directly related to the processing purpose, in a method that has the least impact on personal rights and interests, and (ii) the collection of personal information should be limited to the minimum scope necessary to achieve the processing purpose to avoid the excessive collection of personal information. Different types of personal information and personal information processing will be subject to various rules on consent, transfer, and security. Entities handling personal information bear responsibilities for their personal information handling activities, and shall adopt necessary measures to safeguard the security of the personal information they handle. Otherwise, the entities handling personal information could be ordered to correct, or suspend or terminate the provision of services, and face confiscation of illegal income, fines or other penalties.

### **Hong Kong Regulations**

As we provide a trading service business in Hong Kong, our business operations are subject to various regulations and rules promulgated by the Hong Kong government. The following is a brief summary of the Hong Kong laws and regulations that currently and materially affect our business. This section does not purport to be a comprehensive summary of all present and proposed regulations and legislation relating to the industries in which we operate.

#### *Hong Kong Laws and Regulations relating to Protection of Personal Data*

*Personal Data (Privacy) Ordinance* (Chapter 486 of the Laws of Hong Kong) ("PDPO"), which came into full effect in Hong Kong in 1996 aims to protect the privacy of individuals of their personal data. The PDPO imposes a statutory duty on data users to comply with the requirements of the six data protection principles (the "Data Protection Principles") contained in Schedule 1 to the PDPO. The PDPO provides that a data user shall not do an act, or engage in a practice, that contravenes a Data Protection Principle unless the act or practice, as the case may be, is required or permitted under the PDPO. The six Data Protection Principles are:

- Principle 1 — purpose and manner of collection of personal data;
- Principle 2 — accuracy and duration of retention of personal data;
- Principle 3 — use of personal data;

- Principle 4 — security of personal data;
- Principle 5 — information to be generally available; and
- Principle 6 — access to personal data.

Non-compliance with a Data Protection Principle may lead to a complaint to the Privacy Commissioner for Personal Data (the “Privacy Commissioner”). The Privacy Commissioner may serve an enforcement notice to direct the data user to remedy the contravention. A data user who contravenes an enforcement notice commits an offence which may lead to a fine and imprisonment.

The PDPO also gives data subjects certain rights, inter alia:

- the right to be informed by a data user whether the data user holds personal data of which the individual is the data subject;
- if the data user holds such data, to be supplied with a copy of such data; and
- the right to request correction of any data they consider to be inaccurate.

The PDPO criminalizes, including but not limited to, the misuse or inappropriate use of personal data in direct marketing activities, non-compliance with a data access request and the unauthorized disclosure of personal data obtained without the relevant data user’s consent.

#### *Hong Kong Laws and Regulations relating to Trade Description*

*Trade Descriptions Ordinance* (Chapter 362 of the Laws of Hong Kong) (“TDO”), which came into full effect in Hong Kong on April 1, 1981 aims to prohibit false or misleading trade descriptions and statements to goods and services provided to the customers during or after a commercial transaction. Pursuant to the TDO, any person in the course of any trade or business applies a false trade description to any goods or supply or offers to supply them commits an offence and a person also commits the same offence if he/she is in possession for sale or for any purpose of trade or manufacture of any goods with a false description. The TDO also provides that traders may commit an offence if they engage in a commercial practice that has a misleading omission of material information of the goods, an aggressive commercial practice, involves bait advertising, bait and switch or wrong acceptance of payment.

#### *Hong Kong Laws and Regulations relating to Sales of Goods*

Pursuant to *Sale of Goods Ordinance* (Chapter 26 of the Laws of Hong Kong) (“SOGO”), which came into full effect in Hong Kong on August 1, 1896, in every contract of sale, there is an implied warranty that the goods are free, and will remain free until the time when the property is to pass, from any charge or encumbrance not disclosed or known to the buyer before the contract is made and that the buyer will enjoy quiet possession of the goods except so far as it may be disturbed by the owner or other person entitled to the benefit of any charge or encumbrance so disclosed or known. The SOGO provides that there is an implied condition that the goods shall correspond with the description where there is a contract for the sale of goods by description, and there is any implied condition or warranty as to the quality or fitness for any particular purpose of goods supplied under a contract of sale. Where the seller sells goods in the course of a business, there is an implied condition that the goods supplied under the contract are of merchantable quality.

#### *Hong Kong Laws and Regulations relating to Supply of Services*

Pursuant to *Supply of Services (Implied Terms) Ordinance* (Chapter 457 of the Laws of Hong Kong) (“SSITO”), which came into full effect in Hong Kong on October 21, 1994, in a contract for the supply of a service where the supplier is acting in the course of a business, there is an implied term that the supplier will carry out the service with reasonable care and skill. The SSITO provides that where, under a contract for the supply of a service by a supplier acting in the course of a business, the time for the service to be carried out is not fixed by the contract, is not left to be fixed in a manner agreed by the contract or is not determined by the course of dealing between the parties, there is an implied term that the supplier will carry out the service within a reasonable time.



#### *Hong Kong Laws and Regulations relating to Exemption Clauses in a Contract*

*Control of Exemption Clauses Ordinance* (Chapter 71 of the Laws of Hong Kong) (“CECO”), which came into full effect in Hong Kong on December 1, 1990 aims to limit the scope where the seller may limit its liability via the terms of the contracts. The CECO provides that unless the concerned terms satisfy the test of reasonableness, a person dealing as consumer cannot by reference to any contract term be made to indemnify another person (whether a party to the contract or not) in respect of liability that may be incurred by the other for negligence or breach of contract.

#### *Hong Kong Laws and Regulations relating to Obscene and Indecent Article*

Pursuant to *Control of Obscene and Indecent Articles Ordinance* (Chapter 390 of the Laws of Hong Kong) (“COIAO”), which came into full effect in Hong Kong on September 1, 1987, any person who publishes, possesses for the purpose of publication or imports for the purpose of the publication, any obscene article, whether or not he knows that it is an obscene article, may commit an offence and may be liable for a fine and imprisonment. The COIAO provides that it may be an offence to publish any indecent article without sealing such articles in wrappers and displaying a notice as prescribed by the COIAO. It may also be an offence to publish any indecent article to a person under 18, whether or not it is known that it is an indecent article or that such person is under 18.

#### *Hong Kong Laws and Regulations relating to Copyright*

*Copyright Ordinance* (Chapter 528 of the Laws of Hong Kong) (“Copyright Ordinance”), which came into full effect in Hong Kong on July 13, 2001 provides comprehensive protection for recognized categories of work including artistic work. The Copyright Ordinance restricts certain acts such as copying and/or issuing or making available copies to the public of a copyright work without the authorization from the copyright owner as it may constitute primary infringement. The Copyright Ordinance provides that a person may also incur liability for secondary infringement if that person possesses, sells, distributes or deals with a copy of a work which is, and which he knows or has reason to believe to be, an infringing copy of work for the purposes of or in the course of any trade or business without the consent of the copyright owner.

#### *Hong Kong Laws and Regulations relating to Competition*

*Competition Ordinance* (Chapter 619 of the Laws of Hong Kong) (“Competition Ordinance”), which came into full effect in Hong Kong on December 14, 2015 prohibits and deters undertakings in all sectors from adopting anti-competitive conduct which has the object or effect of preventing, restricting or distorting competition in Hong Kong. The key prohibitions include (i) prohibition of agreements between businesses which have the object or effect of preventing, restricting or distorting competition in Hong Kong; and (ii) prohibiting companies with a substantial degree of market power from abusing their power by engaging in conduct that has the object or effect of preventing, restricting or distorting competition in Hong Kong. The penalties for breaches of the Competition Ordinance include, but are not limited to, financial penalties of up to 10% of the total gross revenues obtained in Hong Kong for each year of infringement, up to a maximum of three years in which the contravention occurs.

#### *Hong Kong Laws and Regulations relating to Employment*

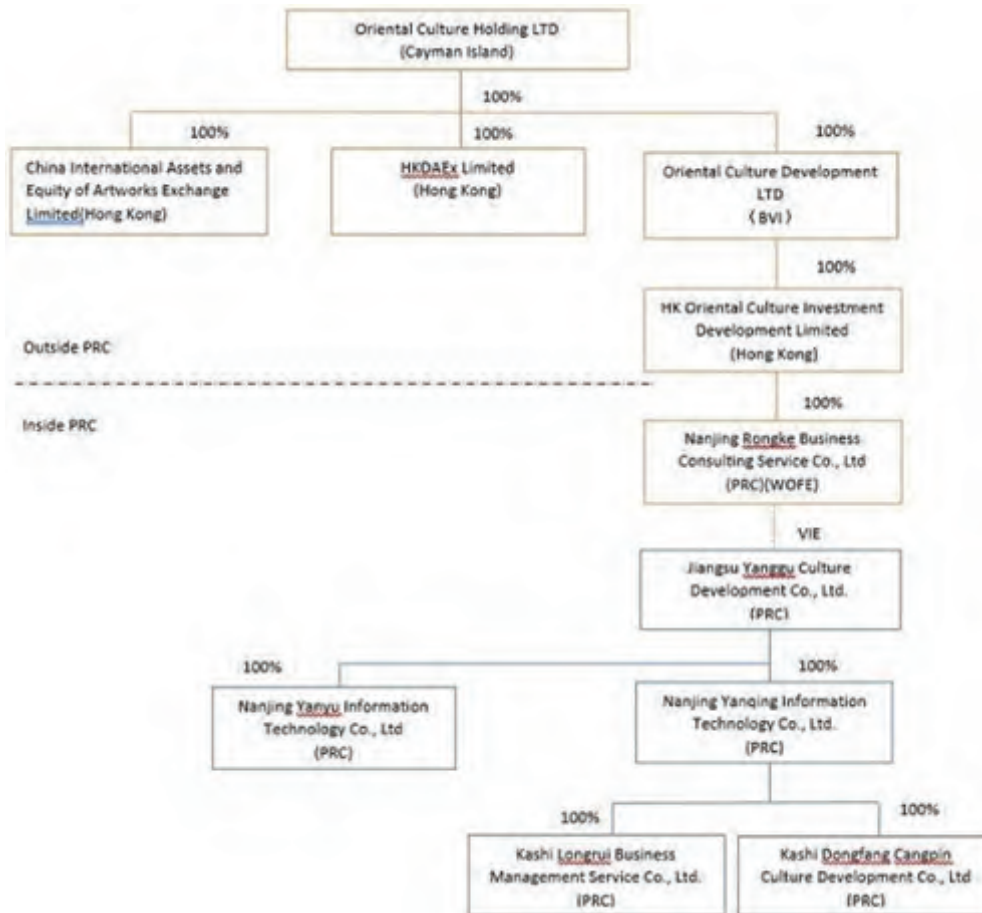
Pursuant to *Employment Ordinance* (Chapter 57 of the Laws of Hong Kong) (“EO”), which came into full effect in Hong Kong on September 27, 1968, all employees covered by the EO are entitled to basic protection under the EO including but not limited to payment of wages, restrictions on wages deductions and the granting of statutory holidays.

Pursuant to *Mandatory Provident Fund Schemes Ordinance* (Chapter 485 of the Laws of Hong Kong) (“MPFSO”), which came into full effect in Hong Kong on December 1, 2000, every employer must take all practicable steps to ensure that the employee becomes a member of a Mandatory Provident Fund (MPF) scheme. An employer who fails to comply with such a requirement may face a fine and imprisonment. The MPFSO provides that an employer who is employing a relevant employee must, for each contribution period, from the employer’s own funds, contribute to the relevant MPF scheme the amount determined in accordance with the MPFSO.

Pursuant to *Employees’ Compensation Ordinance* (Chapter 282 of the Laws of Hong Kong) (“ECO”), which came into full effect in Hong Kong on December 1, 1953, all employers are required to take out insurance policies to cover their liabilities under the ECO and at common law for injuries at work in respect of all of their employees. An employer failing to do so may be liable to a fine and imprisonment.

### C. Organizational structure

Below is the Company's corporate structure chart as of the date of this report.



#### Variable Interest Entity Arrangements

In establishing our business, we have used a variable interest entity, or VIE, structure. In the PRC, investment activities by foreign investors are principally governed by the NDRC and the MOFCOM which promulgated the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Edition) (the “2021 National Negative List”) and the Special Administrative Measures (Negative List) for Foreign Investment Access in Pilot Free Trade Zones (2021 Edition) (the “2021 FTZ Negative List”) (collectively the “2021 Negative Lists”) on December 27, 2021, which took effect on January 1, 2022. Industries listed in the 2021 Negative Lists are divided into two categories: restricted and prohibited. Industries not listed in the 2021 Negative Lists are generally deemed as constituting a third “permitted” category. . Our Company and the WFOE are considered as foreign investors or foreign invested enterprises under PRC law.

Though the business we conduct through the variable interest entity is not within the category in which foreign investment is currently restricted or prohibited under the Negative List or other PRC Laws, we expect that in the future Jiangsu Yanggu will engage in marketing survey services for online marketplaces. Marketing survey services are within the category in which foreign investment is restricted pursuant to the Negative List. In addition, we intend to centralize our management and operation in the PRC to avoid being restricted in conducting certain business activities which are important for our current or future business but are currently restricted or might be restricted in the future. As such, we believe the agreements between the WFOE and the variable interest entity are necessary and essential for our business operation without the equity ownership of the VIE. These contractual arrangements with the variable interest entity and its shareholders enable us to exercise effective control over the variable interest entity and hence consolidate the financial results of the VIE and its wholly owned subsidiaries without being deemed as a foreign invested company.

In our case, the WFOE effectively assumed management of the business activities of the variable interest entity through a series of agreements which are referred to as the VIE Agreements. The VIE Agreements are comprised of a series of agreements, including a Technical Consultation and Service Agreement, an Equity Pledge Agreement, an Equity Option Agreement, and a Voting Rights Proxy and Financial Supporting Agreement. Through the VIE Agreements, the WFOE has the right to advise, consult, manage and operate the variable interest entity for an annual consulting service fee in the amount of 100% of the variable interest entity's net profit as determined under PRC accounting standards. The shareholders of the variable interest entity have pledged all of their rights, title and equity interest in the variable interest entity as security for the WFOE to collect consulting services fees provided to the variable interest entity through the Equity Pledge Agreement. In order to further reinforce the WFOE's right to control and operate the variable interest entity, the variable interest entity's shareholders have granted the WFOE an exclusive right and option to acquire all of their equity interests in the variable interest entity through the Equity Option Agreement.

The material terms of the VIE Agreements with Jiangsu Yanggu and its shareholders are as follows:

Technical Consultation and Service Agreement. Pursuant to the Technical Consultation and Service Agreement between the WFOE and Jiangsu Yanggu dated May 8, 2019, the WFOE has the exclusive right to provide consultation and services to Jiangsu Yanggu in the areas of management, human resources, technology and intellectual property rights. For such services, Jiangsu Yanggu agrees to pay service fees in the amount of 100% of its net income and the WFOE has the obligation to absorb 100% of Jiangsu Yanggu's losses. The WFOE exclusively owns any intellectual property rights arising from the performance of this Technical Consultation and Service Agreement. The amount of service fees and the payment term can be amended by the WFOE with consultation with Jiangsu Yanggu for implementation. The term of the Technical Consultation and Service Agreement is 20 years. The WFOE may terminate this agreement at any time by giving 30 days' written notice to Jiangsu Yanggu.

Equity Pledge Agreement. Pursuant to the Equity Pledge Agreement among the WFOE, Jiangsu Yanggu and Jiangsu Yanggu's shareholders dated May 8, 2019, amended on January 28, 2021 (collectively, the "Pledge"), each of Jiangsu Yanggu's shareholders pledged all of their equity interests in Jiangsu Yanggu to the WFOE to guarantee Jiangsu Yanggu's performance of relevant obligations and indebtedness under the Technical Consultation and Service Agreement and other control agreements (collectively, the "Control Agreement"). If Jiangsu Yanggu breaches its obligations under the Control Agreement, the WFOE, as pledgee, will be entitled to certain rights, including the right to dispose of the pledged equity interests in order to recover the damages associated with such breaches. The Pledge shall be continuously valid until all of Jiangsu Yanggu's shareholders are no longer shareholders of Jiangsu Yanggu, or until the satisfaction of all Jiangsu Yanggu's obligations under the Control Agreement.

**Equity Option Agreement.** Pursuant to the Equity Option Agreement among the WFOE, Jiangsu Yanggu and Jiangsu Yanggu's shareholders dated May 8, 2019, amended on January 28, 2021, WFOE has the exclusive right to require that Jiangsu Yanggu's shareholders fulfill and complete all approval and registration procedures required under PRC laws for the WFOE to purchase, or designate one or more persons to purchase, such shareholders' equity interests in Jiangsu Yanggu, in one or multiple transactions, at any time or from time to time, at the WFOE's sole and absolute discretion. The purchase price shall be the lowest price allowed by PRC laws. The Equity Option Agreements shall remain effective until all of the equity interests owned by Jiangsu Yanggu's shareholders have been legally transferred to the WFOE or its designee(s).

**Voting Rights Proxy and Financial Supporting Agreements.** Pursuant to the Voting Rights Proxy and Financial Supporting Agreement among the WFOE, Jiangsu Yanggu and Jiangsu Yanggu's shareholders dated May 8, 2019, amended on January 28, 2021, Jiangsu Yanggu's shareholders irrevocably appointed the WFOE or the WFOE's designee to exercise all of his or her rights as a shareholder of Jiangsu Yanggu under the Articles of Association of Jiangsu Yanggu, including but not limited to the power to exercise all such shareholder's voting rights with respect to all matters to be discussed and voted in Jiangsu Yanggu shareholder meetings. The term of the Voting Rights Proxy and Financial Supporting Agreements is 20 years.

#### **D. Property, Plants and Equipment**

Our principal executive offices are located in Hong Kong where we lease approximately 51 square meters of office space. We also lease approximately 2,500 square meters of office space in China. Our leased premises are leased from unrelated third parties and related parties who either have valid title to the relevant properties or proper authorization from the title holder to sublease the property. On November 4, 2021, Kashi Dongfang and Kashi Longrui, the wholly owned subsidiaries of Jiangsu Yanggu, jointly entered into an agreement acquired an office building from Nanjing Z-COM Wireless Communication Technology Co., Ltd. for a total amount of RMB60 million (approximately \$9.2 million). The office building is located at Building 30, #699-22, Xuanwu Avenue, Xuanwu District, Nanjing City, Jiangsu Province, which is approximately 6,840 square meters. The land use rights for the land occupied by the building was acquired by means of purchase and remains valid until December 20, 2056. The Company is decorating the building and expects to complete by the end of August 2023, which will be used as our office space in China.

We believe that we will have adequate facilities to accommodate our future expansion plans. Currently, we lease the following properties to conduct our business:

| <b>Property</b>   | <b>Lessee</b>          | <b>Annual Rent</b>   | <b>Termination Date</b> | <b>Purposes/Use</b> |
|---|------------------------|--|-------------------------|---------------------|
| No. 2, Youzishan Road, Dongba Street, Gaochun District  | Jiangsu Yanggu         | Rent free due to preferential treatment by local government for registered enterprises | November 1, 2029        | Office              |
| Room 501, 14 <sup>th</sup> Floor, Shannxi Building, Kashi Avenue, Kashi, Xinjiang, China                            | Kashi Longrui          | RMB 25,000 (approximately \$3,572)   | June 30, 2023           | Office              |
| 4th Floor, Block F4, Zi Dong International Creative Park, No 1 Zidong Road, Qixia District, Nanjing, Jiangsu, China | Kashi Longrui          | RMB 1,080,000 (approximately \$154,285)  | December 31, 2023       | Office              |
| Room 1402, Richmake Commercial Building, 198-200 Queen's Road Central, Hong Kong                                    | International Exchange | HK\$211,920 (approximately \$27,344)   | July 15, 2024           | Office              |

## 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 on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information—D. Risk Factors” or in other parts of this annual report on Form 20-F.*

### 5A. Operating Results

#### Overview

We are an online provider of collectibles and artwork e-commerce services, which allow collectors, artists and art dealers and owners to access a much bigger collectible and art trading market where they can engage with a wider range of collectibles and artwork investors than they could likely encounter without our platforms. We currently facilitate trading by individual and institutional customers of all kinds of collectibles and artwork and certain commodities on our leading online platforms owned by our subsidiaries in Hong Kong, namely the China International Assets and Equity of Artworks Exchange Limited and HKDAEx Limited. We commenced our operations in March 2018 and our customer trading volume has been growing rapidly since then. We also provide online and offline integrated marketing, storage and technical maintenance services to our customers in China.

According to the report of “E-commerce in China 2021” released by Ministry of Commerce of People’s Republic of China on November 16, 2022, China’s e-commerce continued to grow in 2021. Data of National Bureau of Statistics of China indicates that in 2021, the national e-commerce transaction volume reached RMB 42.3 trillion (approximately \$6.13 trillion), an increase of 19.6% year-on-year.

On many mainstream e-commerce platforms, sales of cultural products such as arts and crafts have flourished and developed rapidly, and art and collectibles related e-commerce business is gradually growing. Online trading has become a major trend of the global art and collectibles trade. As a comprehensive service provider with rich cultural and art collection and collectibles market operations and marketing experience, we seize current development opportunities and provide online and offline supporting services for domestic and international art and collectibles e-commerce business. We plan to build a complete art and collectibles business e-commerce service chain to serve the industry.

We provide customers of our online platform with comprehensive services, including account opening, art investment education, market information, research, real-time customer support, and artwork and collectibles warehousing services. Most services are delivered online through our proprietary client software and call center. Our client software provides not only market information and analysis, but also interactive functions including live discussion boards and instant messaging with customer service representatives, which we believe enhances our customers’ engagement. Internally, we legally collect and analyze customer behavior and communications data from our client software, customer relationship management system and the exchanges, which allow us to better understand, attract and serve our customers.

We provide industry solutions and related software products, system development and technical support services for our cooperation with e-commerce platform customers.

We strive to minimize conflicts of interest with our customers, which we believe is essential for our long-term success. Under the trading rules of the two exchange platforms we operate on, we do not set, quote or influence the trading prices, and cannot access our customers’ money.

#### Impact of COVID-19

Beginning in late 2019, there was an outbreak of COVID-19 (coronavirus) which spread quickly across many parts of China, the U.S. and worldwide. In March 2020, the World Health Organization declared the COVID-19 as a pandemic. Although the COVID-19 has mostly under control worldwide, the outbreak of the Omicron variant has resulted in quarantines, travel restrictions, and the temporary closure of stores and business facilities in many parts of China for in 2022. Our business and results of operations have been affected due to office closures and disruption in logistics in various parts of China.

China started easing the strict lockdown procedures in early December 2022, which has led to surge in COVID infections and disrupt our business operations in December 2022 and January 2023. Any future impact of COVID-19 on our operation results will depend on, to a large extent, future developments and new information that may emerge regarding the duration and resurgence of COVID-19 variants and the actions taken by government authorities to contain COVID-19 or treat its impact, almost all of which are beyond our control.

### **Impact of investigation from our related party**

On July 1, 2022, Mr. Huajun Gao and Mr. Aiming Kong, each an 11.5% shareholder of Oriental Culture Holding LTD (the “Company”), were detained by Nan County Public Safety Bureau of Yiyang City, Hunan Province, China. On July 26, 2022, Nan County People’s Procuratorate approved the arrest of Mr. Gao and Mr. Kong with charge of illegal business operation of Nanjing Jinwang Art Purchase E-commerce Co., Ltd., a company controlled by Mr. Gao and Mr. Kong (“Nanjing Jinwang”). On July 1, 2022, the bank accounts of Nanjing Jinwang were frozen by Nan County Public Safety Bureau, including a trust account into which the customers of the Company deposit their security deposits in order to trade on the Company’s two online trading platforms which the Company has entrusted Nanjing Jinwang for escrow.

Also, on July 1, 2022, Nan County Public Safety Bureau froze certain bank accounts of Kashi Longrui Business Management Services Co., Ltd. (“Kashi Longrui”), Kashi Dongfang Cangpin Culture Development Co., Ltd. (“Kashi Dongfang”) and Nanjing Yanyu Information Technology Co., Ltd. (“Nanjing Yanyu”), all subsidiaries of Jiangsu Yanggu Culture Development Co., Ltd., the variable interest entity of the Company in China because they, each had business relationship with Nanjing Jinwang.

Neither the Company nor its VIE or subsidiaries of its VIE has received any notification for enforcement charges from Nan County Public Safety Bureau, other than cash and short term investment in the frozen bank accounts with balances totaling approximately \$16.5 million and due from Nanjing Jinwang of approximately \$3.4 million relating to the Nanjing Jinwang investigation as described above as of December 31, 2022. Currently the customers can freely transfer their deposits and make their withdrawals based on their actual needs. Mr. Gao and Mr. Kong are not officers, directors or employees of the Company, its VIE or subsidiaries of the VIE.

Due to the investigation of Nanjing Jinwang and frozen bank accounts, the business operations of the Company have been materially and negatively impacted as its customers experienced difficulties withdrawing their security deposits through online banking and have concerns regarding their deposited funds. The Company has taken remedial measures to assist its customers in withdrawing security deposits, such as through manual and in person application with the bank to transfer funds, so that they will have confidence in the Company and continue to list and trade art and collectible products on the online platforms of the Company. However, there can be no assurance that these measures will restore customer confidence in using the Company’s services efficiently or at all.

The investigation of Mr. Gao, Mr. Kong and Nanjing Jinwang is ongoing. The Company has and will continue to communicate with Nan County Public Safety Bureau and other government authorities to obtain more information regarding the investigation and to attempt to unfreeze the bank accounts for the subsidiaries of the VIE. The Company will monitor the development of the investigation and will provide additional information concerning its impact on the Company’s business in due course.

This investigation from our related party as well as the outbreak of Omicron variant in China had negative impact on our revenue and net income for the year ended December 31, 2022. Our revenue decreased approximately \$19.8 million from approximately \$37.6 million for the year ended December 31, 2021 to approximately \$17.8 million for the same period of 2022 and our net income decreased approximately \$8.2 million from approximately \$11.4 million for the year ended December 31, 2021 to approximately \$3.2 million for the same period of 2022.

## **Key Factors Affecting Our Results**

We believe the key factors affecting our financial condition and results of operations include the following:

### ***Number of Active Traders***

Our results of operations are dependent on the number of active traders using our platform. Active traders is defined as the total number of individuals who placed trades and traded collectibles, artwork and commodities on our platforms during the relevant period. We had approximately 142,000, 159,000 and 77,000 traders that participated in trading collectibles, artwork and commodities on our platforms for the years ended December 31, 2022, 2021 and 2020, respectively. The number of traders in 2020 was affected by outbreak of COVID-19 while in 2021 the number of traders increased by 106% as most of COVID-19 in PRC were under control in 2021. In 2022, due to outbreak of Omicron variant and impact of frozen bank accounts caused by the investigation of our related party, number of traders decreased by 11%.

### ***Number of Transactions***

During the years ended December 31, 2022, 2021 and 2020, our platforms facilitated and completed approximately 96 million, 135 million and 48 million transactions, respectively. The change in the number of transactions was due to the change in the number of active traders and trading activities due to reason mentioned above.

### ***Transaction Value***

Transaction value is defined as the dollar amount of the purchase and sale of the ownership units of the collectibles, artwork and commodities after they are listed on our platforms. During the years ended December 31, 2022, 2021 and 2020, total transaction value amounted to approximately \$8.6 billion, \$15.6 billion and \$4.6 billion, respectively. The change in total transaction value was due to the change in number of products listed and number of transactions for the year ended December 31, 2022, 2021 and 2020. The numbers of new collectibles/artwork and commodities that were successfully listed on our platforms decreased from 199 for the year ended December 31, 2021 to 31 for the year ended December 31, 2022.

### ***Average Transaction Value Per Trader***

Average transaction value per trader is calculated by dividing the total number of active traders from total transaction value during the relevant period. During the years ended December 31, 2022, 2021 and 2020, our average transaction value per client was approximately \$0.06 million, \$0.1 million and \$0.06 million, respectively. The decrease of average transaction value is due to decrease in transaction value as stated above.

## **Results of Operations**

The tables in the following discussion summarize our consolidated statements of income and comprehensive income for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The operating results in any period are not necessarily of the results that may be expected for any future period.

Years Ended December 31, 2022 vs. December 31, 2021

|  | For the Years Ended<br>December 31, |               | Variance        |            |
|--|-------------------------------------|---------------|-----------------|------------|
|  | 2022                                | 2021          | Amount          | %          |
| Net revenues   | \$ 17,646,814                       | \$ 37,363,303 | \$ (19,716,489) | (52.8)%    |
| Net revenues – related parties   | 166,325                             | 233,157       | (66,832)        | (28.7)%    |
| Total operating revenues   | 17,813,139                          | 37,596,460    | (19,783,321)    | (52.6)%    |
| Less: cost of revenues   | (996,459)                           | (2,425,420)   | 1,428,961       | (58.9)%    |
| Gross profit   | 16,816,680                          | 35,171,040    | (18,354,360)    | (52.2)%    |
| Operating expenses   | (14,227,329)                        | (24,285,574)  | 10,058,245      | (41.4)%    |
| Income from operations   | 2,589,351                           | 10,885,466    | (8,296,115)     | (76.2)%    |
| Other income, net  | 651,147                             | 558,807       | 92,340          | 16.5%      |
| Income before income taxes   | 3,240,498                           | 11,444,273    | (8,203,775)     | (71.7)%    |
| Provision for income taxes   | 4,812                               | -             | 4,812           | 100.0%     |
| Net income   | 3,235,686                           | 11,444,273    | (8,208,587)     | (71.7)%    |
| Foreign currency translation adjustment                                    | (2,273,012)                         | 174,841       | (2,447,853)     | (1,400.0)% |
| Comprehensive income   | \$ 962,674                          | \$ 11,619,114 | (10,656,440)    | (91.7)%    |
| Weighted average number of ordinary shares outstanding – basic and diluted | 21,108,143                          | 20,484,272    | 623,871         | 3.0%       |
| Basic and diluted earnings per share                                       | \$ 0.15                             | \$ 0.56       | \$ (0.41)       | (72.6)%    |

**Revenues:**

The following table sets forth the principal components of our net revenues by amounts and percentages of our net revenues for the periods indicated:

|  | For the Years Ended December 31, |       |               |       | Variance        |         |
|--|----------------------------------|-------|---------------|-------|-----------------|---------|
|  | 2022                             |       | 2021          |       | Amount          | %       |
|  | Revenue                          | %     | Revenue       | %     |                 |         |
| Listing services fees <sup>(1)</sup>   | \$ 1,244,251                     | 7.0   | \$ 6,900,561  | 18.3  | \$ (5,656,310)  | (82.0)% |
| Transaction fees <sup>(2)</sup>        | 13,643,958                       | 76.6  | 24,462,861    | 65.1  | (10,818,903)    | (44.2)% |
| Marketing services fees <sup>(3)</sup> | 2,749,224                        | 15.4  | 5,750,901     | 15.3  | (3,001,677)     | (52.2)% |
| Other revenues <sup>(4)*</sup>         | 175,706                          | 1.0   | 482,137       | 1.3   | (306,431)       | (63.6)% |
| Total operating revenues               | \$ 17,813,139                    | 100.0 | \$ 37,596,460 | 100.0 | \$ (19,783,321) | (52.6)% |

\* Including \$166,325 and \$233,157 from related parties for the years ended December 31, 2022 and 2021, respectively.

(1) *Listing service fees:* Our performance obligation is to provide listings on our platform. Listing service fees are calculated based on a percentage of the listing value of collectibles, artwork and commodities. Listing value is the total offering price of the collectible, artwork and commodities when the ownership of the units are initially listed on our trading platforms. We utilize an appraised value as a basis to determine the appropriate listing value for each collectible, artwork or commodities, or portfolio of collectibles, artwork or commodities. We recognize the related revenue upon our completion of our performance obligation to the customer and its item is successfully listed for trading on our platforms. Our standard listing fees for artwork and collectibles range from 3% to 8% and 2.3% to 10.0% for each of the years ended December 31, 2022 and 2021 and standard listing fees for commodities was 3% to 8% and 1% to 6% of the initial listing value for each of 2022 and 2021. The rate is dependent on the type of listings and is negotiated on a case by case basis. In 2022, we also had listing for silver coins, which the listing price is charged on per coin basis instead of a percentage of listing value. The average listing period is approximately three months.



Total listing service fees decreased by approximately \$5.7 million or 82.0% from approximately \$6.9 million for the year ended December 31, 2021 to approximately \$1.2 million for the same period in 2022. Our listing service fees are calculated based on a percentage of the listing value of collectibles, artwork and commodities of new products. During the years ended December 31, 2022 and 2021, total listing value of listed artwork, collectibles and commodities amounted to approximately \$0.4 billion and \$1.0 billion, respectively. In addition, there were less listing values generated by new products listings with approximately \$44.9 million and \$58.3 million for 2022 and 2021, respectively. The numbers of new collectibles/artwork and commodities that were successfully listed on our platforms decreased from 199 for the year ended December 31, 2021 to 31 for the year ended December 31, 2022. The decrease in our listings was mainly due to impact from outbreak of COVID Omicron variant in 2022 and the freeze of bank accounts caused by the investigation of our related party in second half of 2022 which reduced overall customers listing.

(2) *Transaction fee revenue*: Transaction fee revenue is generally calculated based on the transaction value of collectibles, artwork or commodities per transaction for our services to facilitate the trading transactions. Transaction value is the dollar amount of the purchase and sale of the collectibles, artwork or commodities after it is listed on our platform. We typically charge from 0.15% to 0.3% of the transaction value per transaction from both the purchase and sale side of the transaction resulting in an aggregate of 0.3% to 0.6% of total transaction value. Sometimes, we charge a predetermined transaction rate, which is negotiated on a case by case basis, for selected traders with specific large transactions. Transaction fee revenue also includes predetermined monthly transaction fees, which are negotiated on a case by case basis for selected traders with high trading volume, and is recognized and earned over the specified service period.

In 2018, the Company started a customer reward points program, pursuant to which reward points were issued for opening a new account or referring customers to open accounts with us during our promotion period. In that regard, customers are required to redeem certain reward points for new listings in addition to the regular listing services fees. If a customer does not own any reward points, he/she can purchase them from other customers on our platform. We do not record revenue when customers redeem any points as it is considered as a prerequisite for a new listing in addition to the regular services fees. The points are traded by and among our customers on the platform and we charge a transaction fee from such points trading. Transaction fee revenue from the trading of points amounted to approximately \$1.1 million and \$3.4 million for the years ended December 31, 2022 and 2021, respectively.

Total transaction fee revenue decreased by approximately \$10.9 million or 44.2% from approximately \$24.5 million for the year ended December 31, 2021 to approximately \$13.6 million for the same period in 2022. The decrease was due to the decrease in total transaction value. Transaction fee revenue is calculated based on a certain percentage of the transaction value per transaction. Our total transaction value decreased from approximately US\$15.6 billion the year ended December 31, 2021 to approximately \$8.6 billion for the same period in 2022. The decrease in our transaction was mainly due to impact from resurgence of COVID variant in the first half of 2022 and freeze of bank accounts caused by the investigation of our related party in second half of 2022 which reduced overall customers transactions.

(3) *Marketing service fees*: Marketing service fees is what we charge for promoting and marketing our customers' collectible or artwork. The services include assisting our customers in connection with his/her listing and trading of his/her collectible/artwork on our platform, which mainly includes consulting and supporting services of the marketability for the collectible/artwork; assessing its market value and market acceptance for the collectible/artwork; and assisting in the application and legal protection required for the customer's collectible/artwork to be approved for listing on our platform. For marketing service contracts in which the related performance obligations can be completed within a short period of time, the Company recognizes the related revenue upon the completion of its performance obligations.

Marketing service agreements also include providing promotion services for customers' items as where to place ads on well-known cultural or art exchange websites in China, to provide online and offline marketing services including cooperation with auction houses and participate in industry-related exhibitions and fairs. The marketing service fees are charged on a negotiated fixed fee basis, which is based on the type of the listing session that the customer applies for and whether the customer has listed and sold its collectibles on other platforms before, and they were not based on the value of the underlying collectible, artwork and commodities. Marketing service contracts and fees are recognized upon the completion of all performance obligations.

Marketing service fees decreased by approximately \$3.0 million or 52.2% from approximately \$5.8 million for the year ended December 31, 2021 to approximately \$2.8 million for the same period in 2022. The decrease was due to decreasing of type of artwork we promote. During the year ended December 31, 2021 and 2022, 199 and 31 types of collectibles/artwork were successfully listed on our platforms, of which we promoted 64 and 31 types of newly listed collectibles and artwork for our customers, respectively. The overall decrease was due to decrease in listing and transactions for reasons stated above.

(4) *Other revenues*: Other revenues primarily includes services fees for IT technical support and agency recommendation fees. IT technical support fees are negotiated on a case by case basis and is recognized when the related services have been performed based on the specific terms of the contract. Agency recommendation fees are mainly revenue generated from providing consulting and training services to certain traders/agents. Upon completion of the training and consulting, these qualified traders/agents may introduce our platform and services to potential customers to list their collectibles and artwork with us for a fee or promote their own products on our platform. Total other revenues decreased by \$306,431 or 63.6% from \$482,137, which included \$233,157 from providing technological services to our related parties for the same period in 2021 to \$175,706, which included \$166,325 from providing technological services to our related parties for the same period in 2022. The decrease was primarily because we provided less consulting and training services to traders for the year ended December 31, 2022.

#### Cost of Revenues

Cost of revenues decreased by approximately \$1.4 million or 58.9% from approximately \$2.4 million including approximately \$0.7 million from a related party for the year ended December 31, 2021 to approximately \$1.0 million including approximately \$0.3 million from a related party for the same period in 2022. The decrease in cost of revenues was primarily due to the decrease in warehouse storage fees of approximately \$0.4 million, decrease in verification related fees of approximately \$0.7 million. The warehouse storage fees were charged based on certain percentage of listing value of commodities, decrease in warehouse storage fee was due to overall decrease in overall listing value of products.

#### Gross Profit

Gross profit decreased by approximately \$18.4 million or 52.2% from approximately \$35.2 million for the year ended December 31, 2021 to approximately \$16.8 million for the year ended December 31, 2022. Gross margin for the years ended December 31, 2022 and 2021 were approximately 94% and approximately 94%, respectively.

#### Selling and Marketing Expenses

Selling expenses decreased by approximately \$8.2 million, or 51.7%, from approximately \$16.0 million including approximately \$0.4 million to a related party for the year ended December 31, 2021 to approximately \$7.7 million including approximately \$44,000 to a related party for the same period in 2022. The decrease was primarily due to the decrease in marketing expenses of approximately \$8.4 million as we paid less commissions due to less new listings and traders introduced by third parties. The Company has two types of reward program, one is to rebate directly to customers while the other is to reward third party sales agents. Rebates to customers are considered as a reduction in sales price, so the rebate is instantaneous while rebates to third party sales agents is usually paid in one to three months in arrears.

#### General and Administrative Expenses

Our general and administrative expenses decreased by approximately \$1.8 million, or 21.8% from approximately \$8.3 million including approximately \$0.2 million to a related party for the year ended December 31, 2021 to approximately \$6.5 million including approximately \$0.2 million to a related party for the same period in 2022. The decrease in our general and administrative expenses was primarily due to decreased professional fees of approximately \$0.6 million, decreased consulting expenses for business development of approximately \$1.0 million, decreased travel and meeting related fees of approximately \$0.3 million and decreased office and management expenses of approximately \$0.2 million, because of the controlling measures and travel restrictions taken by Chinese government due to outbreak of COVID-19 in 2022, offset by increased depreciation and amortization expenses of approximately \$0.3 million due to new furniture and vehicle purchased during the year ended December 31, 2022.

### Other Income

Total other income increased by approximately \$0.1 million, or 16.5%, from approximately \$0.6 million for the year ended December 31, 2021 to approximately \$0.7 million for the same period in 2022. The increase was mainly due to the increase of approximately \$0.1 million in rental income that we subleased part of our office space to the third party. Other income also included government subsidies of approximately \$240,000 to promote local business development and a VAT refund of \$61,000. As part of VAT reform in 2019, a taxpayer in certain service industries was allowed to reclaim an additional 10% of input VAT credit against the amount of VAT payable from April 1, 2019 to December 31, 2022.

### Provision for Income Taxes

Our provision for income taxes amounted to \$4,812 and nil for the year ended December 31, 2022 and 2021, respectively. We generated most of our income from the subsidiaries of our VIE that had preferential tax treatment which are formed and registered in Kashi in Xinjiang Province, China. We also have provided 100% allowance on net operating losses from our VIE which incurred losses.

### Net Income

Our net income decreased by approximately \$8.2 million, or 71.7%, from \$11.4 million for the year ended December 31, 2021 to approximately \$3.2 million for the same period in 2022. Such change was the result of the combination of the changes as discussed above.

### Foreign Currency Translation Adjustment

Changes in foreign currency translation adjustment are mainly due to the fluctuation of foreign exchange rates between RMB/HKD (the functional currency of our operating entities) and the USD dollar (reporting currency).

### **Results of Operations**

The tables in the following discussion summarize our consolidated statements of income and comprehensive income for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The operating results in any period are not necessarily of the results that may be expected for any future period.

### **Years Ended December 31, 2021 vs. December 31, 2020**

|  | For the Years Ended<br>December 31, |               | Variance      |         |
|--|-------------------------------------|---------------|---------------|---------|
|  | 2021                                | 2020          | Amount        | %       |
| Net revenues   | \$ 37,363,303                       | \$ 17,225,630 | \$ 20,137,673 | 116.9%  |
| Net revenues – related parties   | 233,157                             | 213,172       | 19,985        | 9.4%    |
| Total operating revenues   | 37,596,460                          | 17,438,802    | 20,157,658    | 115.6%  |
| Less: cost of revenues   | (2,425,420)                         | (2,642,163)   | 216,743       | (8.2)%  |
| Gross profit   | 35,171,040                          | 14,796,639    | 20,374,401    | 137.7%  |
| Operating expenses   | (24,285,574)                        | (13,150,551)  | (11,135,023)  | 84.7%   |
| Income from operations   | 10,885,466                          | 1,646,088     | 9,239,378     | 561.3%  |
| Other income, net  | 558,807                             | 402,019       | 156,788       | 39.0%   |
| Income before income taxes   | 11,444,273                          | 2,048,107     | 9,396,166     | 458.8%  |
| Provision for income taxes   | -                                   | -             | -             | -%      |
| Net income   | 11,444,273                          | 2,048,107     | 9,396,166     | 458.8%  |
| Foreign currency translation adjustment                                    | 174,841                             | 1,144,657     | (969,816)     | (84.7)% |
| Comprehensive income   | \$ 11,619,114                       | \$ 3,192,764  | 8,426,350     | 263.9%  |
| Weighted average number of ordinary shares outstanding – basic and diluted | 20,484,272                          | 15,615,729    | -             | -       |
| Basic and diluted earnings per share                                       | \$ 0.56                             | \$ 0.13       | \$ 0.43       | 330.8%  |

**Revenues:**

The following table sets forth the principal components of our net revenues by amounts and percentages of our net revenues for the periods indicated:

|  | For the Years Ended December 31, |       |               |       |                |         |
|--|----------------------------------|-------|---------------|-------|----------------|---------|
|  | 2021                             |       | 2020          |       | Variance       |         |
|  | Revenue                          | %     | Revenue       | %     | Amount         | %       |
| Listing services fees <sup>(1)</sup>   | \$ 6,900,561                     | 18.3  | \$ 8,405,211  | 48.2  | \$ (1,504,650) | (18.0)% |
| Transaction fees <sup>(2)</sup>        | 24,462,861                       | 65.1  | 7,075,283     | 40.5  | 17,387,578     | 246%    |
| Marketing services fees <sup>(3)</sup> | 5,750,901                        | 15.3  | 1,370,164     | 7.9   | 4,380,737      | 320%    |
| Other revenues <sup>(4)*</sup>         | 482,137                          | 1.3   | 588,144       | 3.4   | (106,007)      | (18.0)% |
| Total operating revenues               | \$ 37,596,460                    | 100.0 | \$ 17,438,802 | 100.0 | \$ 20,157,658  | 116%    |

\* Including \$233,157 and \$213,172 from related parties for the years ended December 31, 2021 and 2020, respectively.

(1) *Listing service fees:* Our performance obligation is to provide listings on our platform. Listing service fees are calculated based on a percentage of the listing value of collectibles, artwork and commodities. Listing value is the total offering price of the collectible, artwork and commodities when the ownership units are initially listed on our trading platform. We utilize an appraised value as a basis to determine the appropriate listing value for each collectible, artwork or commodities, or portfolio of collectibles, artwork or commodities. We recognize the related revenue upon our completion of our performance obligation to the customer and its item is successfully listed for trading on our platform. Our standard listing fees for artwork and collectibles range from 2.3% to 10.0% for each of the years ended December 31, 2021 and 2020 and standard listing fees for commodities was 1% to 6% of the initial listing value for both years. The rate is dependent on the type of listings and is negotiated on a case by case basis. In 2021, we also had listing for silver coins, which the listing price is charged on per coin basis instead of a percentage of listing value. The average listing period is around three months.

Total listing service fees decreased by approximately \$1.5 million or 18.0% from \$8,405,211 for the year ended December 31, 2020 to \$6,900,561 for the same period in 2021. Our listing service fees are calculated based on a percentage of the listing value of collectibles, artwork and commodities of new products. During the years ended December 31, 2021 and 2020, total listing value of listed artwork, collectibles and commodities amounted to approximately \$1.0 billion and \$0.8 billion, respectively, however, there were less listing value generated by new products listings with approximately \$58.3 million and \$88.4 million for new products listed in 2021 and 2020, respectively. The number in new collectibles/artwork and commodities were successfully listed on our platforms increased from 188 for the year ended December 31, 2020 to 199 for the year ended December 31, 2021. The total number of collectibles/artwork and commodities that were listed on our platforms increased from 303 for the year ended December 31, 2020 to 494 for the year ended December 31, 2021.

(2) *Transaction fee revenue:* Transaction fee revenue is generally calculated based on the transaction value of collectibles, artwork or commodities per transaction for our services to facilitate the trading transactions. Transaction value is the dollar amount of the purchase and sale of the collectibles, artwork or commodities after it is listed on our platform. We typically charge from 0.15% to 0.3% of the transaction value per transaction from both the purchase and sale side of the transaction resulting in an aggregate of 0.3% to 0.6% of total transaction value. Sometimes, we charge a predetermined transaction rate, which is negotiated on a case by case basis, for selected traders with specific large transactions. Transaction fee revenue also includes predetermined monthly transaction fees, which are negotiated on a case by case basis for selected traders with high trading volume, and is recognized and earned over the specified service period.

In 2018, the Company started a customer reward points program, pursuant to which reward points were issued for opening a new account or referring customers to open accounts with us during our promotion period. In that regard, customers are required to redeem certain reward points for new listings in addition to the regular listing services fees. If a customer does not own any reward points, he/she can purchase them from other customers on our platform. We do not record revenue when customers redeem any points as it is considered as a prerequisite for a new listing in addition to the regular services fees. The points are traded by and among our customers on the platform and we charge a transaction fee from such points trading. Transaction fee revenue from the trading of points amounted to approximately \$3.4 million and \$2.6 million for the years ended December 31, 2021 and 2020, respectively.

Total transaction fee revenue increased by approximately \$17.4 million or 246.0% from approximately \$7.08 million for the year ended December 31, 2020 to approximately \$24.5 million for the same period in 2021. The increase was due to the increase in total transaction value. Transaction fee revenue is calculated based on a certain percentage of the transaction value per transaction. Our total transaction value increased from approximately \$4.6 billion the year ended December 31, 2020 to approximately \$15.6 billion for the same period in 2021. We have focused our effort in promoting existing products traded on the platform by increasing our marketing expenses/activities in 2021 which resulted in increased transactions and transaction value of our existing customers and products.

*(3) Marketing service fees:* Marketing service fees is what we charge for promoting and marketing our customers' collectible or artwork. The services include assisting our customers in connection with his/her listing and trading of his/her collectible/artwork on our platform, which mainly includes consulting and supporting services of the marketability for the collectible/artwork; assessing its market value and market acceptance for the collectible/artwork; and assisting in the application and legal protection required for the customer's collectible/artwork to be approved for listing on our platform. For marketing service contracts in which the related performance obligations can be completed within a short period of time, the Company recognizes the related revenue upon the completion of its performance obligations.

Marketing service agreements also include providing promotion services for customers' items as where to place ads on well-known cultural or art exchange websites in China, to provide online and offline marketing services including cooperation with auction houses and participate in industry-related exhibitions and fairs. The marketing service fees are charged on a negotiated fixed fee basis, which is based on the type of the listing session that the customer applies for and whether the customer has listed and sold its collectibles on other platforms before, and they were not based on the value of the underlying collectible, artwork and commodities. Marketing service contracts and fees are recognized upon the completion of all performance obligations.

Marketing service fees increased by approximately \$4.4 million or 319.7% from \$1,370,164 for the year ended December 31, 2020 to \$5,750,901 for the same period in 2021. The increase was due to promoting additional types of artwork. During the year ended December 31, 2020 and 2021, 188 and 199 types of collectibles/artwork were successfully listed on our platforms, of which we promoted 24 and 64 types of newly listed collectibles and artwork for our customers, respectively.

*(4) Other revenues:* Other revenues primarily includes services fees for IT technical support and agency recommendation fees. IT technical support fees are negotiated on a case by case basis and is recognized when the related services have been performed based on the specific terms of the contract. Agency recommendation fees are mainly revenue generated from providing consulting and training services to certain traders/agents. Upon completion of the training and consulting, these qualified traders/agents may introduce our platform and services to potential customers to list their collectibles and artwork with us for a fee or promote their own products on our platform. Total other revenues decreased by approximately \$106,000 or 18.0% from \$588,144, which included of \$213,172 from providing technological services to our related parties for the same period in 2020 to \$482,137, which included of \$233,157 from providing technological services to our related parties for the same period in 2021. The decrease was primarily because we provided less consulting and training services to traders for the year ended December 31, 2021.

### Cost of Revenues

Cost of revenues decreased by approximately \$0.2 million or 8.2% from \$2,642,163 including \$1,734,761 from a related party for the year ended December 31, 2020 to \$2,425,420 including \$730,007 from a related party for the same period in 2021. The decrease in cost of revenues was primarily due to the decrease in warehouse storage fees of approximately \$1.0 million offset by increase in appraisal fees and related services of approximately \$0.7 million. The warehouse storage fees were charged based on certain percentage of listing value of commodities, decrease in warehouse storage fee was due to overall decrease in overall listing value of products, and certain new customers were transferred from other trading sites which they were already paid their own warehouse fees before, therefore the Company did not need to pay for warehouse fees for those new traders.

### Gross Profit

Gross profit increased by approximately \$20.4 million or 137.7% from \$14,796,639 for the year ended December 31, 2020 to \$35,171,040 for the year ended December 31, 2021. Gross margin for the years ended December 31, 2021 and 2020 were approximately 94% and approximately 85%, respectively. The increase in gross margin was due mainly to the increased revenue and the decrease in costs in 2021 as a result of recovering from COVID-19.

### Selling and Marketing Expenses

Selling expenses increased by approximately \$9.9 million, or 165.8%, from 6,004,883 including \$1,762,652 to a related party for the year ended December 31, 2020 to \$15,958,450 including \$359,968 to a related party for the same period in 2021. The increase was primarily due to the increase in commission expenses of approximately \$10.2 million as our transaction fee revenue increased where we paid a percentage of transaction fees for third-party referrals of new traders. The Company has two types of reward program, one is to rebate directly to customers while the other type is to reward the sales agents. Rebates to customers are considered a reduction in sales price, so the rebate is instantaneous, while rebate to sales agents are usually paid in one to three months in arrears. Our selling expenses to related party decreased by 79.6% as we reduced our advertising activities on our related party's website where we focus our advertising efforts on other venues. Our total other marketing expenses were at comparable levels in 2021 compared to 2020.

### General and Administrative Expenses

Our general and administrative expenses increased by approximately \$1.2 million, or 16.7% from \$7,145,668 including \$201,865 to a related party for the year ended December 31, 2020 to \$8,327,124 including \$223,284 to a related party for the same period in 2021. The increase in our general and administrative expenses was primarily due to increased compensation costs including salaries, bonuses of approximately \$0.6 million, increased office, travel, IT, training and meeting expenses of approximately \$1.3 million as our business recovered from the pandemic and incurred more business activities, offset by a decrease of approximately \$0.8 million for the costs related to going public in 2020.

### Other Income

Total other income increased by approximately \$0.2 million, or 39.0%, from \$402,019 for the same period in 2020 to \$558,807 for the same period in 2021. The increase in other income was primarily due to the increase in interest income and gain from short term investment of approximately \$0.1 million. Other income also included government subsidies of approximately \$115,000 to promote local business development and a VAT refund of \$78,000. As part of VAT reform in 2019, a taxpayer in certain service industries was allowed to reclaim an additional 10% of input VAT credit against the amount of VAT payable from April 1, 2019 to December 31, 2021.

### Provision for Income Taxes

Our provision for income taxes amounted to nil for both years ended December 31, 2021 and 2020. We generated most of our income from the subsidiaries of our VIE that had preferential tax treatment which are formed and registered in Kashi in Xinjiang Province, China. We also have provided 100% allowance on net operating losses from our VIE which incurred losses.

### Net Income

Our net income increased by approximately \$9.4 million, or 458.8%, from \$2.0 million for the year ended December 31, 2020 to approximately \$11.4 million for the same period in 2021. Such change was the result of the combination of the changes as discussed above.

### Foreign Currency Translation Adjustment

Changes in foreign currency translation adjustment are mainly due to the fluctuation of foreign exchange rates between RMB/HKD (the functional currency of our operating entities) and the USD dollar (reporting currency).

## **5B. Liquidity and Capital Resources**

### **Liquidity and Capital Resources**

We had approximately \$33.7 million of cash and cash equivalents and short term investments, including approximately \$16.5 million restricted cash and cash equivalents and short term investments. We had approximately \$38.4 million of working capital as of December 31, 2022. In assessing our liquidity, we monitor and analyze our cash on-hand and our operating and capital expenditure commitments. To date, we have financed our operations primarily through cash flows from operations, short-term investment, private placement and public offering.

On December 7, 2021, we entered into Securities Purchase Agreements (“Agreements”) with two investors (“Investors”), pursuant to which we agreed to sell to the Investors in private placements, 600,000 ordinary shares at a purchase price of \$5.00 per share for an aggregate offering price of \$3,000,000. We received proceed of approximately \$2.0 million as of December 31, 2021 for 400,000 shares and received remaining \$1.0 million for the 200,000 shares in January 2022. We believe that our current working capital is sufficient to support our operations for the next twelve months. We may, however, need additional cash resources in the future if we experience changes in business conditions or other developments, or if we find and wish to pursue opportunities for investment, acquisition, capital expenditure or similar actions. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand at the time, we may seek to issue equity or debt securities or obtain credit facilities. The issuance and sale of additional equity would result in further dilution to our shareholders.

All of our revenue is denominated in RMB. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiary is allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, current PRC regulations permit our PRC subsidiary to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. Our PRC subsidiary are required to set aside at least 10% of their after-tax profits after making up previous years' accumulated losses each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of their registered capital. These reserves are not distributable as cash dividends. Furthermore, capital account transactions, which include foreign direct investment and loans, must be approved by and/or registered with SAFE and its local branches. See "*Risk Factors -Risks Relating to Doing Business in China.*" We rely on dividends and other distributions on equity paid by our PRC subsidiary to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiary to make payments to us could have a material adverse effect on our ability to conduct our business.

### Cash Flows

As of December 31, 2022, we had cash and cash equivalents of approximately \$29.0 million. The table below sets forth a summary of our cash flows for the periods indicated:

|   | <b>For the Year<br/>Ended<br/>December 31,<br/>2022</b> | <b>For the Year<br/>Ended<br/>December 31,<br/>2021</b> |
|---|---|---|
| Net cash provided by (used in) operating activities | \$ (1,211,385)  | \$ 9,024,887  |
| Net cash provided by (used in) investing activities | \$ 608,471  | \$ (2,809,418)  |
| Net cash provided by financing activities           | \$ 1,000,000  | \$ 2,000,000  |

#### *Operating Activities*

Net cash used in operating activities was approximately \$1.2 million for the year ended December 31, 2022 which was attributable primarily to increase in other receivable from related parties of approximately \$2.7 million which are funds deposited in trust account of our related party Nanjing Jinwang Art Purchase E-commerce Co., Ltd. ("Nanjing Jinwang") that our customers can withdraw anytime and increase in other receivables and prepaid expenses of approximately \$3.2 million primarily due to \$2.7 million advance to third parties, which was short term, non-interest bearing, due on demand and has been collected by March 22, 2023. Our cash inflow was mainly from net income of approximately \$3.2 million and increase of approximately \$1.5 million in accounts payable affected by restricted cash.

Net cash provided by operating activities was approximately \$9.0 million for the year ended December 31, 2021 which was attributable primarily to the net income of approximately \$11.4 million. Our cash outflow was mainly from decrease in other receivable from related parties of approximately \$1.8 million which are funds deposited in trust account of our related party Nanjing Jinwang that our customers can withdraw anytime as well as the decrease in accounts payable of approximately \$4.5 million where we paid off more vendors using our funds from operations.

Net cash provided by operating activities was approximately \$6.6 million for the year ended December 31, 2020 which was attributable primarily to the net income of approximately \$2.0 million, the increase in depreciation and amortization of approximately \$0.3 million, the collection of accounts receivable approximately \$0.8 million, the increase in other receivable from related parties of approximately \$1.4 million, and the increase in accounts payable of approximately \$5.3 million as we incurred more cost of revenues and consulting expenses on business development. The cash inflow partially offset by the increase in other receivables and prepaid expenses of approximately \$0.8 million.

#### *Investing Activities*

Net cash provided by investing activities was approximately \$0.6 million for the year ended December 31, 2022, which was primarily attributable to the proceed from sale of short term investment approximately of \$24.0 million offset by the purchase of short-terms investment approximately of \$22.2 million. We paid approximately \$0.7 million for fixed and intangible assets and invested \$0.5 million in Beijing Jiu Yu Ling Jing Technology Co., Ltd. ("JYLJ"), in whom we acquired 11.875% equity interest.



Net cash used in investing activities was approximately \$2.8 million for the year ended December 31, 2021, which was primarily attributable to the purchase of a short-term investment approximately of \$45.0 million which offset with the proceed from sale of short term investment approximately of \$42.5 million, and purchase of certificate of deposit of approximately \$3.1 million. In 2020, we made a deposit of approximately \$12.6 million on a proposed real estate purchase, such deposit was subsequently refunded to us in full amount in April 2021 as we decided to purchase another building. We paid approximately \$9.6 million for an office building in Nangjing city having 6,840 square meters of space. We also purchased approximately \$0.8 million of software.

Net cash used in investing activities was approximately \$11.8 million for the year ended December 31, 2020, which was primarily attributable to the deposit of approximately \$12.6 million as we paid a deposit on a proposed real estate purchase, such deposit was subsequently refunded to us in full amount in April 2021 due to the termination of real estate purchase memorandum of understanding, purchases of a short-term investment of approximately \$24.4 million and purchases of office equipment and intangible assets of approximately \$19,000 due to expansion of our operations and partially offset by the proceed from the sale of such investment of approximately \$25.3 million.

#### *Financing Activities*

Net cash provided by financing activities was approximately \$1.0 million for the year ended December 31, 2022, which was primarily attributable to the proceeds from a private placement in 2021.

Net cash provided by financing activities was approximately \$2.0 million for the year ended December 31, 2021, which was primarily attributable to the proceeds from a private placement.

Net cash provided by financing activities was approximately \$18.1 million for the year ended December 31, 2020, which was primarily attributable to the proceeds from initial public offering.

#### **5C. Research and Development, Patents and Licenses, etc.**

See “Item 4. Information on the Company—B. Business Overview—Intellectual Property.”

#### **D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2022 to December 31, 2022 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

#### **E. Critical Accounting Policies and Estimates**

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

While our significant accounting policies are described in Note 2 to our consolidated financial statements included elsewhere in this annual report, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our management's discussion and analysis:

#### Principles of consolidation

The consolidated financial statements include the accounts of the Company, its subsidiaries, the VIE and its wholly owned subsidiaries. All intercompany transactions and balances are eliminated upon consolidation.

#### Revenue recognition

The core principle underlying the revenue recognition standard is that we will recognize revenue to represent the transfer of services to customers in an amount that reflects the consideration to which we expect to be entitled in such exchange. This will require us to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of services transfers to a customer. Under the guidance of FASB ASC 606, we are required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract and (e) recognize revenue when (or as) we satisfy our performance obligation. Revenues are recorded, net of sales related taxes and surcharges.

We continue to derive our revenues from service contracts with our customers with revenues being recognized upon performance of services. Persuasive evidence of an arrangement is demonstrated via service contract and invoice; and the consideration to the customer is fixed upon acceptance of the sales contract. At times, we offer incentives and rebates to our customers directly and we account for these incentives payable to customers as a reduction of contract price. We have set up a customer point system where the points can be used for services on the trading platform, mainly listing services fees. The points can also be traded amongst traders on the platform or to settle payments on the platform amongst traders. We assessed if a material right exists when we issue these points and if the points represent separate performance obligation. In general, if the points were given to traders based on existing accounts or promotions without the customers having to acquire services from us, therefore there is no material right and no separate performance obligation exists.

Our revenues are recognized at a point in time or over time after all performance obligations are satisfied. In addition, we took the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less. Our commission expenses to our sales agents are expensed when incurred.

We are an online provider of collectibles and artwork e-commerce services, which allows artists and art dealers and owners to access the art trading market with a wider range of artwork investors through our platforms. We currently facilitate trading by individual and institutional customers of collectibles and artwork and commodities (mainly teas) on our online platforms.

We generate revenue from our services in connection with the trading of collectible, artwork and commodities on our platforms, primarily consisting of listing service fees, transaction fees, marketing services fees and other revenues collected from traders (our customers) and/or owners.

Started in July 2019, we had signed cooperative agreements with third parties who are experts and possess new ideas and resources for the collectibles/commodities business to co-develop certain niche markets (such as vintage coins and teas) to be traded on our online platforms. These parties are required to place a security deposit with us until termination of the cooperative agreements and the deposit amounts increase as the trading volume increases. Revenue generated from these niche markets will be shared between us and these parties based on pre-agreed rates and trading volume. We accounted for the portion of revenue that is earned by the third parties as a reduction of total contract revenue to be received from customers. Approximately \$119,000 and nil of revenue generated from these contracts had been recorded as a reduction of revenue and as payables to these parties for the years ended December 31, 2021 and 2022, respectively.

#### *Listing service fees*

One-time nonrefundable listing service fees are collected from traders for listing their products on the platform. Our only performance obligation is to provide the listing on our platform. We recognize the related revenue upon the completion of our performance obligation which is when the customers' products are successfully listed on our platforms. The fees are determined by contracts with the customers as a fixed percentage of the listing price. For some products, we may negotiate a flat rate instead of a percentage of the listing price. For listing service contracts in which the related performance obligations can be completed within a short period of time, we recognize the related revenue upon the completion of our performance obligations.

#### *Transaction fee revenue*

Transaction fee revenue is generally calculated based on the transaction value of collectibles, artwork and commodities per transaction. Transaction value is the dollar amount of the purchase and sale of the collectibles, artwork and commodities after they are listed on our platform. Our performance obligation is to facilitate the trading transactions. Transaction fee revenue is recognized and collected at the time when the transaction is completed.

Transaction fee revenue also includes predetermined monthly transaction fees for select traders with large transactions and are negotiated on a case by case basis. Predetermined transaction fees are recognized and earned over the specified service period.

Predetermined transaction fees received in advance of the specified service period are recorded as deferred revenue.

In 2018, the Company started a customer reward points program, pursuant to which reward points were issued for opening a new account or referring customers to open accounts with us during our promotion period. In that regard, customers are required to redeem certain reward points for new listings along with the regular listing services fees. If a customer does not own any reward points, he/she can purchase them from other customers on our platform. We do not record revenue when customers redeem any points as it is considered as a prerequisite for a new listing in addition to the regular services fees. The points are traded by and among our customers on the platform and we charge a transaction fee from such points trading. We assessed if a material right existed when we initially issued the reward points and if the reward points represent a separate performance obligation. In general, the points were given to customers based on existing accounts or promotions without the customers having to acquire services from the Company, therefore there was no material right and no separate performance obligation exists. Transaction fee revenue from the trading of points amounted to approximately \$3.4 million and \$1.1 million for the years ended December 31, 2021 and 2022, respectively.

#### *Marketing service fees*

Marketing service fees are usually collected after we complete our services and includes the following type of services:

- (1) For certain marketing service agreements, we assist our customers in connection with his/her listing and trading of his/her collectible/artwork or commodities on our platform, which mainly includes consultation and supporting services of the marketability for the collectible/artwork or commodities; assessing its market value and market acceptance for the collectible/artwork or commodities; and assisting in the application and legal protection required for the customer's collectible/artwork or commodities to be approved for listing on our platforms. For marketing service contracts in which the related performance obligations can be completed within a short period of time, we recognize the related revenue upon the completion of our performance obligations.
- (2) Marketing service agreements also includes providing promotional services for customers' items as where to place ads on well-known cultural or art exchange websites in China, to provide online and offline marketing services including cooperation with auction houses and participate in industry-related exhibitions and fairs.

The marketing service fees are charged on a fixed fee basis, which are based on the type of listing session that the customer applies for and whether the customer has listed and sold its collectible on other platforms before, and they were not tied to the type or value of the underlying collectible, artwork or commodities. Marketing service contracts and fees are recognized upon the completion of all performance obligations.

### Other revenues

Other revenues (including \$166,325 and \$233,157 from related parties for the years ended December 31, 2022 and 2021, respectively) primarily includes other service fees for IT technical support to customers and revenues from agency recommendation fees. IT technical support fees are negotiated on a case by case basis and are recognized when the related services have been performed based on the specific terms of the contract. Agency recommendation fees are mainly training and consulting services provided to certain traders/agents for them to become qualified. Upon completion of the training and consultation, these qualified traders/agents may introduce our platform and services to potential customers to list their collectibles and artwork with us for a fee or promote their own products on our platforms. Our performance obligation is completed and revenue is recognized upon completion of training and related consulting services.

### Leases

We adopted FASB ASU 2016-02, "Leases" (Topic 842) for the year ended December 31, 2021, and elected the practical expedients that does not require us to reassess: (1) whether any expired or existing contracts are, or contain, leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. For lease terms of twelve months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. The Company also adopted the practical expedient that allows lessees to treat the lease and non-lease components of a lease as a single lease component. Upon adoption, the Company recognized a \$34,608 right of use ("ROU") assets and same amount of lease liabilities based on the present value of the future minimum rental payments of leases, using an incremental borrowing rate of 4.75% based on the duration of lease terms.

Operating lease ROU assets and lease liabilities are recognized at the adoption date or the commencement date, whichever is earlier, based on the present value of lease payments over the lease term. Since the implicit rate for our leases are not readily determinable, we used our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow, on a collateralized basis, an amount equal to the lease payments, in a similar economic environment and over a similar term.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### 6.A. Directors and Executive Officers

The following table sets forth information regarding our executive officers and directors as of the date of this report.

| <b>Directors and Executive Officers</b>    | <b>Age</b> | <b>Position/Title</b>                |
|--|------------|--------------------------------------|
| Mun Wah Wan                                | 50         | Chairman of the Board of Directors   |
| Xi Li                                      | 35         | Chief Financial Officer              |
| Yi Shao                                    | 34         | Chief Executive Officer and Director |
| Nelson (Nam Sum) Wong <sup>(1)(2)(3)</sup> | 60         | Independent Director                 |
| Xiaobing Liu <sup>(1)(2)(3)</sup>          | 60         | Independent Director                 |
| Jinren Chen <sup>(1)(2)(3)</sup>           | 52         | Independent Director                 |

(1) Member of audit committee.

(2) Member of compensation committee.

(3) Member of corporate governance and nominating committee.

## Biography

### *Mun Wah (Lewis) Wan*

Mr. Wan was appointed as a member of our board of directors on April 18, 2019 and chairman of our board of directors on May 10, 2019. Since February 2007, Mr. Wan has served as chairman of the board of directors of HKFAEx Group Limited, one of our principal shareholders, a Hong Kong corporation and securities dealer which is licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activities of dealing in securities, advising on securities and asset management, and Mr. Wan is also the sole shareholder of The Pride Group Holdings Limited, which owns 100% equity interest of HKFAEx Group Limited. Since February 2013, Mr. Wan has served as committee member of Hong Kong Securities and Investment Institute. Since 2008, Mr. Wan has serviced as the vice president and chairman of China Investment Committee of the China Hong Kong International Economic Trading Association. From December 2012 to December 2022, Mr. Wan was the visiting professor of Beijing University of International Business & Economics. From August 2004 to February 2007, Mr. Wan was the director and chief investment officer of Marco Polo Investments Group Limited. From September 1997 to August 2004, Mr. Wan worked at the Financial Services Division of PricewaterhouseCoopers.

Mr. Wan received his Bachelor Degree of Business Administration, majoring in Finance, from the Hong Kong University of Science and Technology in November 1997. Mr. Wan is a senior fellow of the Hong Kong Securities and Investment Institute, a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. We believe that Mr. Wan's extensive experience and leadership in the investment, business and corporate management will benefit the Company's operations and qualifies him to serve as the chairman of our board of directors.

### *Yi Shao*

Mr. Shao was appointed as a member of our board of directors on April 18, 2019 and as our chief executive officer on May 10, 2019. From October 2018 to March 2019, Mr. Shao served as the general manager of Jiangsu Yanggu Culture Development Co., Ltd. From October 2017 to September 2018, Mr. Shao served as the deputy general manager of Jiangsu Dahe Live Network Technology Co., Ltd. From October 2015 to October 2017, Mr. Shao worked as a project manager at Nanjing Cultural and Artwork Property Exchange Co., Ltd. From June 2013 to October 2015, Mr. Shao worked as a software developer at Marvell Electronic Technology Co., Ltd. Mr. Shao received his Bachelor Degree of electronic information science and technology from Nanjing University in 2010 and his Master Degree of biomedical engineering from Nanjing University in 2013. We believe that Mr. Shao's extensive experience in art industry, market development and corporate management will benefit the company's operations and management and make him an important member of the board of directors and its committees.

### *Xi Li*

Ms. Li was appointed as our Chief Financial Officer on November 29, 2022. From September 27, 2022 to November 28, 2022, Ms. Li served as the financial manager of the Company. From October 2016 to Jun 2022, Ms. Li served as the financial manager of Golden Wheel Tiandi Holdings Company Limited. From September 2013 to February 2016, Ms. Li was a senior audit associate of KPMG Singapore office and an assistant audit manager of KPMG Shanghai Office. From June 2011 to July 2013, Ms. Li served as an audit associate of Adept Public Accounting Corporation in Singapore. Ms. Li obtained her Bachelor's Degree of Science in Applied Accounting from Oxford Brookes University (UK) in 2011 and she is a fellow member of Chartered Association of Certified Public Accountants (ACCA).

### *Nelson (Nam Sum) Wong*

Since 2008, Mr. Wong has served as an Independent Director and Audit Committee Chair of Recon Technology Ltd. (Nasdaq: RCON). He is Chairman and Managing Director of ACN Worldwide, a business and investment consultancy established in Hong Kong since 1995. Prior to that, he was Vice Chairman and Chief Executive of Vigers, a Hong Kong based real estate and investment consultancy, which he first joined in 1990 as a negotiator and later in 1993 acquired together with his partners. Mr. Wong received his bachelor's degree in English language and literature from the PLA Institute of International Relations in Nanjing in 1983 and was a college teacher before moving to Hong Kong in 1986 to pursue his career in business.

We believe that Mr. Wong's leadership skills and extensive management experience as well as his insight in global politics will benefit the Company and make him an important member of the board of directors and its committees.

*Jinren Chen*

Since January 2020, Mr. Chen has served as Chairman and President of Nanjing Shuoming Investment Management Co., Ltd., a private equity fund management company. From February 2019 to December 2019, Mr. Chen was the fund manager for Shanghai Rongru Assets Management Co., Ltd. From May 2014 to February 2019, Mr. Chen served as an industry analyst and then deputy general manager of market making department of Debang Securities Co., Ltd. From May 2001 to April 2014, Mr. Chen served as a researcher and then a senior researcher for Huatai Securities Co, Ltd. Mr. Chen received his bachelor's degree in International Trade from Nanjing University in 1997. Mr. Chen received his master degree of Engineering Management from Business School of Hohai University in Nanjing in 2000 and his Ph.D degree in Economics from Business School of Nanjing University in 2009. Mr. Chen has passed securities practitioner and fund practitioner qualification tests in China. We believe Mr. Chen's extensive experience in capital market will benefit the Company and make him an important member of the board of directors and its committees.

*Xiaobing Liu*

Mr. Liu was appointed as a member of our board of directors on May 10, 2019. Since April 2006, Mr. Liu has been a professor at Nanjing Tech University School of Law. Since June 2022, Mr. Liu has served as an independent director of the board of Nanjing Yigao Medical Technology Co., Ltd. Since March 2022, Mr. Liu has served as the Dean of the Legislative Research Institute at Jinling University of Science and Technology. From May 2016 to May 2022, Mr. Liu served as an independent director of the board of GPRO Titanium Industry Co., Ltd. From September 2012 to September 2018, Mr. Liu served as an independent director of the board of Nanjing Baotai Special Materials Co., Ltd. From January 2014 to July 2017, Mr. Liu served as the Dean of Nanjing Tech University School of Law. Mr. Liu received his Bachelor of Law degree from East China University of Political Science and Law ("ECUPL") in 1983 and his Master's Degree of Legal History from ECUPL in 1986. Mr. Liu received his Doctor's Degree of Constitution and Administrative Laws from Wuhan University in 2007. Mr. Liu holds a public company independent director qualification certificate from Shanghai Stock Exchange since November 2011. We believe that Mr. Liu's legal expertise and knowledge will benefit the Company's business and operations and make him a valuable member of the board of directors and its committees.

## **6.B. Compensation**

During the fiscal year ended December 31, 2022, we paid an aggregate of approximately RMB0.6 million (US\$82,727) in cash to our executive officers, and paid RMB0.4 million (US\$53,640) to our non-executive directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our Hong Kong subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her mandatory provident fund. Our PRC subsidiary and the variable interest entity are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

### *Employment Agreements, Director Agreements and Indemnification Agreements*

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for an initial term of one year and is renewable upon mutual agreement of the Company and the executive officer.

The executive officers are entitled to a fixed salary and to participate in our equity incentive plan and other company benefits, each as determined by the board of directors from time to time.

We may terminate the executive officer's employment for cause, at any time, without notice or remuneration, for certain acts, such as conviction or plea of guilty to a felony or grossly negligent or dishonest acts to our detriment, or material breach of any term of any employment or other services, confidentiality, intellectual property or non-competition agreements with the Company. In such case, the executive officer will solely be entitled to accrued and unpaid salary through the effective date of such termination, and his/her right to all other benefits will terminate, except as required by any applicable law. The executive officer is not entitled to severance payments upon any termination.

The executive officer may voluntarily terminate his/her employment for any reason and such termination shall take effect 30 days after the receipt by Company of the notice of termination. Upon the effective date of such termination, the executive officer shall be entitled to (a) accrued and unpaid salary and vacation through such termination date; and (b) all other compensation and benefits that were vested through such termination date. In the event the executive officer is terminated without notice, it shall be deemed a termination by the Company for cause.

Each of our executive officers has agreed not to use for his/her personal purposes nor divulge, furnish, or make accessible to anyone or use in any way (other than in the ordinary course of the business of the Company) any confidential or secret information or knowledge of the Company, whether developed by him/herself or by others.

In addition, each executive officer has agreed to be bound by non-competition restrictions during the term of his or her employment and for six months following the last date of employment.

Each executive officer also has agreed not to (i) solicit or induce, on his/her own behalf or on behalf of any other person or entity, any employee of the Company or any of its affiliates to leave the employ of the Company or any of its affiliates; or (ii) solicit or induce, on his/her own behalf or on behalf of any other person or entity, any customer or prospective customer of the Company or any of their respective affiliates to reduce its business with the Company or any of its affiliates.

We have also entered into director agreements with each of our independent directors which agreements set forth the terms and provisions of their engagement.

In addition, we have entered into indemnification agreements with each of our directors and executive officers that provide such persons with additional indemnification beyond that provided in our current memorandum and articles of association.

#### **Share Incentive Plans**

The Board of Directors of the Company approved and adopted Oriental Culture Holding LTD 2021 Omnibus Equity Plan (the "Equity Plan") on November 8, 2021, which was approved at the stockholders' meeting on December 16, 2021. The total aggregate ordinary shares of the Company authorized for issuance during the term of the Equity Plan is limited to 4,000,000 shares and none has been granted as of the date of this report.

The following paragraphs summarize the terms of the Equity Plan:

**Administration.** The Equity Plan requires that a committee of non-employee directors to administer the Equity Plan. Currently, our Compensation Committee, which we refer to hereto as the Committee, administers the Equity Plan.

**Shares Subject to the Equity Plan.** The shares issuable under the Equity Plan are our ordinary shares that are authorized but unissued or reacquired ordinary shares, including shares repurchased by the Company as treasury shares. The total aggregate ordinary shares of the Company authorized for issuance during the term of the Equity Plan is limited to 4,000,000 shares.

**Types of Awards and Eligibility.** The Equity Plan provides for five types of awards and they are: Stock Options, Stock Appreciation Rights ("SAR"), Unrestricted Stock, Restricted Stock and Restricted Stock Units. The Eligible Persons under the Equity Plan include Employees, Outside Directors, Consultants and New Hires of the Company or its subsidiaries, as selected by our Board or the designated committee thereof.

**Vesting and Forfeiture.** The Committee determines the time and conditions under which the award will vest or the period of time after which the restriction shall lapse as part of making an award. Vesting or the lapse of the period of restriction may, in the Committee's discretion, be based solely upon continued employment or service for a specified period of time, or may be based upon the achievement of specific performance goals (individual, corporation or other basis), or both. Unless otherwise provided by the Committee, when a participant terminates employment or service with us, all unexercised or unvested awards are forfeited, and if the termination is without cause, all outstanding vested options and SARs will continue to be exercisable until the earlier of the expiration term or the date that is three months after such termination date.

**Prohibition on Repricing.** Except as required or permitted pursuant to a corporate transaction (including, without limitation, any recapitalization or reorganization), in no event will an option or SAR be amended to reduce the exercise or base price or be canceled in exchange for cash, other awards or options or SARs with an exercise price or base price less than the exercise price of the original option or base price of the original SAR without shareholder approval.

**Limits on Transfers of Awards/Beneficiary Designation.** All awards are exercisable only by the participant during the participant's lifetime, and are transferable only by will or by the laws of descent and distribution; provided, however, that the Committee may permit a transfer of an award, other than an incentive stock option, to a family member of an individual, subject to such restrictions as the Committee may provide.

**Term.** The Equity Plan is effective immediately upon the adoption by our Board of Directors, subject to shareholder approval, and will terminate on the earliest to occur of (i) the 10th anniversary of the Equity Plan's effective date, or (ii) the date on which all shares available for issuance under the Equity Plan shall have been issued as fully-vested shares.

## 6.C. Board Practices

### Terms of Directors and Officers

Our officers are elected by and serve at the discretion of the Board. Our directors may be elected by an ordinary resolution of our shareholders. Alternatively, our board of directors may, by the affirmative vote of a simple majority of the directors present and voting at a board meeting appoint any person as a director to fill a casual vacancy on our board. Our directors are not subject to a set term of office and hold office until the next general meeting called for the election of directors and until their successor is duly elected or such time as they die, resign or are removed from office by a shareholders' ordinary resolution or the unanimous written resolution of all shareholders. A director will be removed from office automatically if, among other things, the director becomes bankrupt or makes any arrangement or composition with his creditors generally or is found to be or becomes of unsound mind.

### Board Diversity Matrix

The following table sets forth Board level diversity statistics based on self-identification of members of our Board as of April 26, 2023.

| <b>Board Diversity Matrix (As of April 26, 2023)</b>     |               |             |                   |                                |
|--|---------------|-------------|-------------------|--------------------------------|
| Country of Principal Executive Offices:                  |               |             |                   | P.R. China                     |
| Foreign Private Issuer:                                  |               |             |                   | Yes                            |
| Disclosure Prohibited Under Home Country Law:            |               |             |                   | No                             |
| Total Number of Directors                                |               |             |                   | 5                              |
|  | <u>Female</u> | <u>Male</u> | <u>Non-Binary</u> | <u>Did Not Disclose Gender</u> |
| <b>Part I: Gender Identity</b>                           |               |             |                   |                                |
| Directors  | 0             | 5           | 0                 | 0                              |
| <b>Part II: Demographic Background</b>                   |               |             |                   |                                |
| Underrepresented Individual in Home Country Jurisdiction |               |             |                   | 0                              |
| LGBTQ+   |               |             |                   | 0                              |
| Did Not Disclose Demographic Background                  |               |             |                   | 0                              |



Our board of directors currently consists of 5 directors. We have established an audit committee, a compensation committee and a corporate governance and nominating committee. Each of the committees of the board of directors has the composition and responsibilities described below.

#### *Audit Committee*

Nelson Wong, Xiaobing Liu and Jinren Chen are the members of our audit committee, and Nelson Wong serves as the chairman. All members of our audit committee satisfy the independence standards promulgated by the SEC and by NASDAQ as such standards apply specifically to members of audit committees.

We have adopted and approved a charter for the audit committee. In accordance with our audit committee charter, our audit committee shall perform several functions, including:

- evaluates the independence and performance of, and assesses the qualifications of, our independent auditor, and engages such independent auditor;
- approves the plan and fees for the annual audit, interim reviews, tax and other audit-related services, and approves in advance any non-audit service to be provided by the independent auditor;
- monitors the independence of the independent auditor and the rotation of partners of the independent auditor on our engagement team as required by law;
- reviews the financial statements to be included in our Annual Report on Form 20-F and Current Reports on Form 6-K and reviews with management and the independent auditors the results of the annual audit and reviews of our interim financial statements;
- oversees all aspects our systems of internal accounting control and corporate governance functions on behalf of the board;
- reviews and approves in advance any proposed related-party transactions and report to the full board on any approved transactions; and
- provides oversight assistance in connection with legal, ethical and risk management compliance programs established by management and the board of directors, including Sarbanes-Oxley Act implementation, and makes recommendations to the board of directors regarding corporate governance issues and policy decisions.

Our board of directors has determined that Nelson Wong possesses accounting or related financial management experience that qualifies him as an “audit committee financial expert” as defined by the rules and regulations of the SEC.

#### *Compensation Committee*

Nelson Wong, Xiaobing Liu and Jinren Chen are the members of our compensation committee and Jinren Chen serves as the chairman. All members of our compensation committee are qualified as independent under the current definition promulgated by NASDAQ. We have adopted a charter for the compensation committee. In accordance with the compensation committee’s charter, the compensation committee is responsible for overseeing and making recommendations to the board of directors regarding the salaries and other compensation of our executive officers and general employees and providing assistance and recommendations with respect to our compensation policies and practices. The compensation committee is responsible for, among other things:

- To approve compensation principles that apply generally to Company employees;
- To make recommendations to the board of directors with respect to incentive compensation plans and equity-based plans taking into account the results of the most recent rules to provide the shareholders with an advisory vote on executive compensation, generally known as “Say on Pay Votes” (Section 951 in The Dodd-Frank Wall Street Reform and Consumer Protection Act), if any;
- To administer and otherwise exercise the various authorities prescribed for the compensation committee by the Company’s incentive compensation plans and equity-based plans;
- To select a peer group of companies against which to benchmark/compare the Company’s compensation systems for principal officers elected by the board of directors;
- To annually review the Company’s compensation policies and practices and assess whether such policies and practices are reasonably likely to have a material adverse effect on the Company;
- To determine and oversee stock ownership guidelines and stock option holding requirements, including periodic review of compliance by principal officers and members of the board of directors.

### Corporate Governance and Nominating Committee

Nelson Wong, Xiaobing Liu and Jinren Chen are the members of our corporate governance and nominating committee and Xiaobing Liu serves as the chairman. All members of our corporate governance and nominating committee are qualified as independent under the current definition promulgated by NASDAQ. We have adopted a charter for the corporate governance and nominating committee. In accordance with its charter, the corporate governance and nominating committee is responsible for identifying and proposing new potential director nominees to the board of directors for consideration and reviewing our corporate governance policies. The corporate governance and nominating committee is responsible for, among other things:

- Identify and screen individuals qualified to become board members consistent with the criteria approved by the board of directors, and recommend to the board of directors director nominees for election at the next annual or special meeting of shareholders at which directors are to be elected or to fill any vacancies or newly created directorships that may occur between such meetings;
- Recommend directors for appointment to board committees;
- Make recommendations to the board of directors as to determinations of director independence;
- Oversee the evaluation of the board of directors;
- Make recommendations to the board of directors as to compensation for the Company's directors; and
- Review and recommend to the board of directors the Corporate Governance Guidelines and Code of Business Conduct and Ethics for the Company.

### Director Independence

Our board of directors reviewed the materiality of any relationship that each of our proposed directors has with us, either directly or indirectly. Based on this review, it is determined that Nelson Wong, Xiaobing Liu and Jinren Chen are the "independent directors" as defined by NASDAQ.

### 6.D. Employees

As of December 31, 2022, December 31, 2021 and December 31, 2020, we had a total of 57, 51 and 47 full time employees, respectively. The following table sets forth the breakdown of our employees' functions as of December 31, 2022:

| Function                        | Number* | % of Total Employees |
|---------------------------------|---------|----------------------|
| Technology and Research         | 21      | 36.84%               |
| Sales & Marketing               | 17      | 29.83%               |
| General & HR and Administration | 19      | 33.33%               |
|                                 | 57      | 100.00%              |

\* excluding the employees of Zhongcang Warehouse Co., Ltd., an 18% indirect subsidiary of Jiangsu Yanggu, the VIE.

As of December 31, 2022, 54 of our employees were based in Mainland China and 3 employees were located in Hong Kong.

We understand that our success depends on our ability to attract, train and retain our employees. Therefore, as part of our human resources strategy, we offer employees competitive salaries, performance-based cash bonuses and promotions, engagement activities, various welfare as well as other incentives. We design and provide training to our employees regularly in order to enhance their professional skills and foster their career development. We also recognize the importance of keeping our employees safe. In response to the COVID-19 pandemic, we implemented changes that we determined were in the best interest of our employees and have followed local government orders to prevent the spread of COVID-19.

As required by PRC regulations, we participate in various government statutory employee benefit plans, including social insurance funds, namely a pension contribution 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. We are required under PRC law to make contributions to employee benefit 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. As of the date of this report, we have made adequate employee benefit payments. However, if we were found by the relevant authorities that we failed to make adequate payment, we may be required to make up the contributions for these plans as well as to pay late fees and fines. See “*Risk Factors—Risks Related to Doing Business in China—Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.*”

As required by Hong Kong laws and regulations, we contribute to the Mandatory Provident Fund and take out insurance policies for our Hong Kong-based employees.

We enter into standard labor and confidentiality agreements with our employees. We believe that we maintain a good working relationship with our employees, and we have not experienced any major labor disputes.

## 6.E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of April 26, 2023 for:

- each beneficial owner of 5% or more of our outstanding ordinary shares;
- each of our directors and executive officers; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities and include ordinary shares issuable upon the exercise of options that are immediately exercisable or exercisable within 60 days of the date hereof.

Except as otherwise indicated, all of the shares reflected in the table are ordinary shares and all persons listed below have sole voting and investment power with respect to the shares beneficially owned by them, subject to applicable community property laws. The information is not necessarily indicative of beneficial ownership for any other purpose.

The calculations in the table below are based on 21,226,992 ordinary shares issued and outstanding as of the date of April 26, 2023.

Except as otherwise indicated in the table below, addresses of our directors, executive officers and named beneficial owners are in care of Oriental Culture Holding LTD, Room 1402, Richmake Commercial Building, 198-200 Queen’s Road Central, Hong Kong. Our telephone number at this address is (852) 2110-3909.

| Name of Beneficial Owners  | Ordinary Shares<br>Beneficially Owned |            |
|--|---------------------------------------|------------|
|  | Number                                | %          |
| <b>Directors and Executive Officers:</b>                                 |                                       |            |
| Mun Wah Wan <sup>(1)</sup>   | 1,394,442                             | 6.6        |
| Yi Shao <sup>(2)</sup>   | 400,540                               | 1.9        |
| Xi Li  | -                                     | -          |
| Nelson Wong  | -                                     | -          |
| Xiaobing Liu   | -                                     | -          |
| Jinren Chen  | -                                     | -          |
| <b>5% or Greater Shareholders:</b>                                       |                                       |            |
| HKFAEx Group Limited <sup>(1)</sup>                                      | 1,394,442                             | 6.6        |
| Oriental Culture Investment Development LTD <sup>(3)</sup>               | 2,450,000                             | 11.5       |
| Oriental Culture Investment Communication LTD <sup>(4)</sup>             | 2,450,000                             | 11.5       |
| <b>All directors and executive officers as a group (six individuals)</b> | <b>1,794,982</b>                      | <b>8.5</b> |

- (1) Mun Wah Wan, chairman of our board of directors, is the sole shareholder of The Pride Group Holdings Limited, a British Virgin Islands company, which owns 100% equity interest of HKFAEx Group Limited. Mr. Wan is also the chairman of the board of directors of HKFAEx Group Limited, a Hong Kong corporation and securities dealer which is licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activities of dealing in securities, advising on securities and asset management, and holds the voting and dispositive power over the ordinary shares held by it. The registered address of HKFAEx Group Limited is Unit 909, Level 9, Cyberport 2, Hong Kong. The registered address of The Pride Group Holdings Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town Tortola, VG1110, British Virgin Islands.

- (2) Yi Shao, our chief executive officer and a member of our board of directors, is the shareholder and director of Oriental Culture Investment Diffusion LTD, a British Virgin Islands company, and holds the voting and dispositive power over the ordinary shares held by it. The registered address of Oriental Culture Investment Diffusion LTD is situated at offices of Sertus Incorporations (BVI) Limited, Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands.
- (3) Aimin Kong is the sole shareholder and director of Oriental Culture Investment Development LTD, a British Virgin Islands company, and holds the voting and dispositive power over the ordinary shares held by it. The registered address of Oriental Culture Investment Development LTD is situated at offices of Sertus Incorporations (BVI) Limited, Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands.
- (4) Huajun Gao is the sole shareholder and director of Oriental Culture Investment Communication LTD, a British Virgin Islands company, and holds the voting and dispositive power over the ordinary shares held by it. The registered address of Oriental Culture Investment Communication LTD is situated at offices of Sertus Incorporations (BVI) Limited, Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **7.A. Major Shareholders**

See Item 6.E., “Share Ownership,” for a description of our major shareholders.

### **7.B. Related Party Transactions**

Variable Interest Entity Arrangements

See “*Item 4. Information on the Company—C. Organizational Structure.*”

Employment Agreements, Director Agreements and Indemnification Agreements

See “*Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Employment Agreements, Director Agreements and Indemnification Agreements.*”

a. Accounts receivable – related parties consist of the following:

|  | <u>Relationship</u>   | <u>Nature</u>                                     | <u>December 31,</u><br><u>2022</u> | <u>December 31,</u><br><u>2021</u> |
|--|---|---|------------------------------------|------------------------------------|
| Nanjing Culture Exchange Art Property Exchange Co., Ltd. (“Nanjing Culture”) | Mr. Huajun Gao, the general manager and director of Nanjing Culture, and Mr. Aimin Kong, the vice chairman of Nanjing Culture, each beneficially owns 11.5% shares of the Company | Receivable from technological service fee revenue | \$ 16,345                          | \$ 6,070                           |
| Jinling Cultural Property Exchange Co., Ltd. (“Jinling Cultural”)            | Its major shareholder is also a major shareholder of Jiangsu Yanggu   | Receivable from technological service fee revenue | 12,966                             | 2,023                              |
| Total  |   |   | <u>\$ 29,311</u>                   | <u>\$ 8,093</u>                    |

b. Accounts payable – related parties consist of the following:

|   | <u>Relationship</u>   | <u>Nature</u>                           | <u>December 31,</u><br><u>2022</u> | <u>December 31,</u><br><u>2021</u> |
|---|---|---|------------------------------------|------------------------------------|
| Kashi Jinwang Art Purchase E-commerce Co., Ltd. | 100% owned by Nanjing Jinwang Art Purchase E-commerce Co., Ltd., a related party of the Company | Payable for online advertising expenses | -                                  | 1,665                              |
| Zhongcang Warehouse Co., Ltd.                   | An 18% subsidiary of the VIE of the Company   | Payable for storage fees                | 28,727                             | -                                  |
| Total   |   |   | <u>\$ 28,727</u>                   | <u>\$ 1,665</u>                    |

c. Other payables – related parties consist of the following:

Other payables – related parties are those nontrade payables arising from transactions between the Company and its related parties, such as payments paid on behalf of the Company.

|             | <u>Relationship</u>                               | <u>December 31,</u><br><u>2022</u> | <u>December 31,</u><br><u>2021</u> |
|-------------|---|------------------------------------|------------------------------------|
| Mun Wah Wan | Chairman of the board of directors of the Company | 3,262                              | -                                  |
| Total       |   | <u>\$ 3,262</u>                    | <u>\$ -</u>                        |

d. Net revenues – related parties consist of the following:

|  | <u>Relationship</u>   | <u>Nature</u>                     | <u>For the Year Ended December 31, 2022</u> | <u>For the Year Ended December 31, 2021</u> | <u>For the Year Ended December 31, 2020</u> |
|--|---|-----------------------------------|---|---|---|
| Nanjing Culture  | Mr. Huajun Gao, the general manager and director of Nanjing Culture, and Mr. Aimin Kong, the vice chairman of Nanjing Culture, each beneficially owns 11.5% shares of the Company | Technological service fee revenue | \$ 29,934                                   | \$ 38,959                                   | \$ 41,571                                   |
| Jinling Cultural   | It is owned by our 11.5% beneficial shareholder, Huajun Gao   | Technological service fee revenue | 21,542                                      | 22,519                                      | 21,042                                      |
| Hunan Huaqiang Artwork Trading Center Co., Ltd.                    | 49% owned by Jinling Cultural   | Technological service fee revenue | 17,091                                      | 21,821                                      | 20,390                                      |
| Nanjing Jinwang Art Purchase E-commerce Co., Ltd.(Nanjing Jinwang) | It is owned by Huajun Gao and Aimin Kong, each a 11.5% beneficial shareholder of the Company  | Technological service fee revenue | -   | 17,813                                      | -   |
| Kashi Jinwang Art Purchase E-commerce Co., Ltd.                    | 100% owned by Nanjing Jinwang   | Technological service fee revenue | 97,758                                      | 132,045                                     | 130,169                                     |
| Total  |   |                                   | <u>\$ 166,325</u>                           | <u>\$ 233,157</u>                           | <u>\$ 213,172</u>                           |

e. Cost of revenues – related party consists of the following:

|                               | <u>Relationship</u>                         | <u>Nature</u> | <u>For the Year Ended December 31, 2022</u> | <u>For the Year Ended December 31, 2021</u> |
|-------------------------------|---|---------------|---|---|
| Zhongcang Warehouse Co., Ltd. | An 18% subsidiary of the VIE of the Company | Storage fees  | \$ 304,400                                  | \$ 730,006                                  |

f. Selling and marketing expenses – related party consists of the following:

|   | <u>Relationship</u>            | <u>Nature</u>               | <u>For the Year Ended December 31, 2022</u> | <u>For the Year Ended December 31, 2021</u> |
|---|--------------------------------|-----------------------------|---|---|
| Kashi Jinwang Art Purchase E-commerce Co., Ltd. | 100% owned by Nanjing Jinwang. | Online advertising expenses | \$ 43,590                                   | \$ 359,967                                  |

In 2019, the Company entered into advertising contract with Kashi Jinwang Art Purchase E-commerce Co., Ltd. pursuant to which the Company would use advertising space on Kashi Jinwang’s website from January 1, 2019 to December 31, 2022. The Company was charged a yearly advertising fee of approximately \$0.18 million per year adjustable by actual usage, which was approximately 1.7% of the Company’s initial listing value of collectible or artwork at the time when the contract was entered. On May 1, 2020, the contract between the Company and Kashi Jinwang Art Purchase E-commerce Co., Ltd. was amended and the monthly advertising fee was fixed at 1.5% of the initial listing value of collectible or artwork from May 1, 2020 to December 31, 2022. The contract was further amended on June 25, 2020, pursuant to which the fee will be 2.25% of the initial listing value of collectibles or artwork from July 1, 2020 to December 31, 2020, then return back to 1.5% from January 1, 2021 to December 31, 2022.

g. During the year ended December 31, 2022 and 2021, HKDAEx paid approximately \$51,000 and \$65,000, respectively, to HKFAEx, a company owned by our Chairman for accounting and business administration services.

h. The Company entered into a non-cancellable Office Premises Use Contract with Nanjing Culture for an office space from January 1, 2020 to December 31, 2020 with a monthly rental of approximately \$14,000 including VAT taxes. The Company renewed the lease under the same terms from January 1, 2021 to December 31, 2021 and then renewed again to December 31, 2022. Total rental expense for the years ended December 31, 2022 and 2021 amounted to approximately \$151,000 and \$158,000, respectively.

i. Other receivables – related party consist of funds which are held in trading platform trust account entrusted with Nanjing Jinwang. The funds are unrestricted as to immediate withdrawal and use after the Company’s customers completed the necessary administrative procedures from the platform. The Company normally make withdraw monthly. As of March 22, 2023, approximately RMB 6.0 million (US\$ 0.9 million) was returned to the Company.

### 7.C. Interests of Experts and Counsel

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### Consolidated Statements and Other Financial Information

The financial statements required by this item may be found at the end of this Annual Report on 20-F, beginning on page F-1.

### Legal Proceedings

We are currently not involved in any material legal or administrative proceedings. From time to time, we may be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Such legal or administrative claims and proceedings, even if without merit, could result in the expenditure of financial and management resources and potentially result in civil liability for damages.

### Dividends

We have not previously declared or paid cash dividends and we have no plan to declare or pay any dividends in the near future on our ordinary shares. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We rely principally on dividends from our PRC and Hong Kong subsidiaries for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See “*PRC Laws and Regulations Relating to Foreign Exchange—Dividend Distribution*.”

Our board of directors has discretion as to whether to distribute dividends, subject to applicable laws. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

### No Significant Changes

Except as disclosed elsewhere in this annual report, no other significant changes to our financial condition have occurred since the date of the annual financial statements contained herein.

## ITEM 9. THE OFFER AND LISTING

### 9.A. Offer and Listing Details

Our ordinary shares are listed for trading on the NASDAQ Capital Market under the symbol “OCG.” The shares began trading on December 15, 2020 on the NASDAQ Capital Market.

### 9.B. Plan of Distribution

Not Applicable.

### 9.C. Markets

Our ordinary shares have been listed on the Nasdaq Capital Market since December 15, 2020 under the symbol “OCG”.

### 9.D. Selling Shareholders

Not Applicable.

### 9.E. Dilution

Not Applicable.

### 9.F. Expenses of the Issuer

Not Applicable.

## ITEM 10. ADDITIONAL INFORMATION

### 10.A. Share Capital

Not Applicable.

## 10.B. Memorandum and Articles of Association

We are a Cayman Islands exempted company limited by shares and our affairs are governed by our current memorandum and articles of association and the Companies Act (As Revised) of the Cayman Islands, which we refer to as the “Companies Act” below, and the common law of the Cayman Islands.

Our authorized share capital is \$50,000.00 divided into 1,000,000,000 shares comprising of (i) 900,000,000 ordinary shares of a nominal or par value of \$0.00005 each; and (ii) 100,000,000 preferred shares of a nominal or par value of \$0.00005 each. As of April 27, 2023, 21,226,992 ordinary shares are outstanding and no preferred share is issued or outstanding.

Our shareholders adopted our current amended and restated memorandum and articles of association by way of a special resolution on November 8, 2019.

Our registered office in the Cayman Islands is located at Sertus Chambers, Governors Square, Suite # 5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1-1104, Cayman Islands

According to clause 3 of our current amended and restated memorandum of association, the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by The Companies Act (As Amended) or as the same may be amended from time to time, or any other law of the Cayman Islands.

The following are summaries of material provisions of our current memorandum and articles of association, insofar as they relate to the material terms of our ordinary shares.

### Board of Directors

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

### Ordinary Shares

*Dividends.* Subject to any rights and restrictions of any other class or series of shares, our board of directors may, from time to time, declare dividends on the shares issued and authorize payment of the dividends out of our lawfully available funds. No dividends shall be declared by the board out of our company except the following:

- profits; or
- “share premium account,” which represents the excess of the price paid to our company on issue of its shares over the par or “nominal” value of those shares, which is similar to the U.S. concept of additional paid in capital.

However, no dividend shall bear interest against the Company.

*Voting Rights.* The holders of our ordinary shares are entitled to one vote per share, including the election of directors. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. On a show of hands every shareholder present in person or by proxy shall have one vote. On a poll every shareholder entitled to vote (in person or by proxy) shall have one vote for each share for which he/she is the holder. A poll may be demanded by the chairman or one or more shareholders present in person or by proxy holding not less than 10 percent of the paid up share capital of the Company entitled to vote. A quorum required for a meeting of shareholders consists of shareholders who hold at least one-third of our issued and outstanding shares entitled to vote at the meeting present in person or by proxy and that any holder of shares of the class present in person or by proxy may demand a poll. While not required by our articles of association, a proxy form will accompany any notice of general meeting convened by the directors to facilitate the ability of shareholders to vote by proxy.



Any ordinary resolution to be made by the shareholders requires the affirmative vote of a simple majority of the votes of the issued and outstanding ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no fewer than two-thirds of the votes of the issued and outstanding ordinary shares cast. Under Cayman Islands law, some matters, such as amending the memorandum and articles, changing the name or resolving to be registered by way of continuation in a jurisdiction outside the Cayman Islands, require approval of shareholders by a special resolution.

There are no limitations on non-residents or foreign shareholders in the current memorandum and articles to hold or exercise voting rights on the ordinary shares imposed by foreign law or by the charter or other constituent document of our company. However, no person will be entitled to vote at any general meeting or at any separate meeting of the holders of the ordinary shares unless the person is registered as of the record date for such meeting and unless all calls or other sums presently payable by the person in respect of ordinary shares in the Company have been paid.

*Winding Up; Liquidation.* Upon the winding up of our company, after the full amount that holders of any issued shares ranking senior to the ordinary shares as to distribution on liquidation or winding up are entitled to receive has been paid or set aside for payment, the holders of our ordinary shares are entitled to receive any remaining assets of the Company available for distribution as determined by the liquidator. The assets received by the holders of our ordinary shares in a liquidation may consist in whole or in part of property, which is not required to be of the same kind for all shareholders.

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

*Redemption of Ordinary Shares.* We may issue shares that are, or at its option or at the option of the holders are, subject to redemption on such terms and in such manner as it may, before the issue of the shares, determine. Under the Companies Act, shares of a Cayman Islands exempted company may be redeemed or repurchased out of profits or share premium of the company, provided the current memorandum and articles authorize this and it has the ability to pay its debts as they come due in the ordinary course of business.

*No Preemptive Rights.* Holders of ordinary shares will have no preemptive or preferential right to purchase any securities of our company.

*Variation of Rights Attaching to Shares.* If at any time the share capital is divided into different classes of shares, the rights attaching to any class (unless otherwise provided by the terms of issue of the shares of that class) may, subject to the current memorandum and articles, be varied or abrogated with the consent in writing of the holders of all of the issued shares of that class or with the sanction of an ordinary resolution passed at a general meeting of the holders of the shares of that class.

*Anti-Takeover Provisions.* Some provisions of our current 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 preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our current memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

*Transfer of Shares.* Subject to certain restriction in the articles of association as may be applicable, any shareholder may transfer all or any of its shares by an instrument in writing in any usual or common form or any other form which the Board of Directors may approve or on behalf of the transferor and if in respect of a nil or partly paid up share or if so required by the Board of Directors shall also be executed on behalf of the transferee and shall be accompanied by the certificate of the shares to which it relates and such other evidence as the Board of Directors may reasonably require to show the right of the transferor to make the transfer. The transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the Register of Members/Shareholders in respect thereof.

The Board of Directors may in their absolute discretion to decline to register any transfer of any share, whether or not it is a fully paid share, without assigning any reason for so doing. If the Board of Directors refuse to register a transfer, they shall within 2 months of the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal.

All instruments of transfer which shall be registered shall be retained by the Company, but any instrument of transfer which the Board of Directors may decline to register shall (except in any case of fraud) be returned to the person depositing the same.

The registration of transfers may be suspended at such times and for such periods as the Board of Directors may from time to time determine, provided always that such registration shall not be suspended for more than 45 days in any year.

#### *Inspection of Books and Records*

Holders of our shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than our memorandum and articles of association and any special resolutions passed by our shareholders, and the register of mortgages and charges of our company).

*General Meeting of Shareholders.* Shareholders' meetings may be convened by our board of directors. Advance notice of at least seven (7) calendar days is required for the convening of our annual general shareholders' meeting and any other general meeting of our shareholders. No business shall be transacted at any general meeting unless a quorum of shareholders is present at the time when the meeting proceeds to business. Save as otherwise provided by the articles of association, a quorum shall consist of one or more shareholders present in person or by proxy holding at least one-third (1/3) of the paid up voting share capital of the Company.

*Exempted Company.* We are an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- 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.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

### *Preferred Shares*

The Directors may authorise the division of shares into any number of Classes and the different Classes shall be authorised, established and designated (or re-designated as the case may be) and the variations in the relative rights (including, without limitation, voting, dividend and redemption rights), restrictions, preferences, privileges and payment obligations as between the different Classes (if any) may be fixed and determined by the Directors or by an Ordinary Resolution. The Directors may issue shares with such preferred or other rights, all or any of which may be greater than the rights of Ordinary Shares, at such time and on such terms as they may think appropriate. The Directors may issue from time to time, out of the authorised share capital of the Company (other than the authorised but unissued Ordinary Shares), series of preferred shares in their absolute discretion and without approval of the shareholders; provided, however, before any preferred shares of any such series are issued, the Directors shall by resolution of Directors determine, with respect to any series of preferred shares, the terms and rights of that series, including:

- (a) the designation of such series, the number of preferred shares to constitute such series and the subscription price thereof if different from the par value thereof;
- (b) whether the preferred shares of such series shall have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights, which may be general or limited;
- (c) the dividends, if any, payable on such series, whether any such dividends shall be cumulative, and, if so, from what dates, the conditions and dates upon which such dividends shall be payable, and the preference or relation which such dividends shall bear to the dividends payable on any shares of any other class or any other series of shares;
- (d) whether the preferred shares of such series shall be subject to redemption by the Company, and, if so, the times, prices and other conditions of such redemption;
- (e) whether the preferred shares of such series shall have any rights to receive any part of the assets available for distribution amongst the Members upon the liquidation of the Company, and, if so, the terms of such liquidation preference, and the relation which such liquidation preference shall bear to the entitlements of the holders of shares of any other class or any other series of shares;
- (f) whether the preferred shares of such series shall be subject to the operation of a retirement or sinking fund and, if so, the extent to and manner in which any such retirement or sinking fund shall be applied to the purchase or redemption of the preferred shares of such series for retirement or other corporate purposes and the terms and provisions relative to the operation thereof;
- (g) whether the preferred shares of such series shall be convertible into, or exchangeable for, shares of any other class or any other series of preferred shares or any other securities and, if so, the price or prices or the rate or rates of conversion or exchange and the method, if any, of adjusting the same, and any other terms and conditions of conversion or exchange;
- (h) the limitations and restrictions, if any, to be effective while any preferred shares of such series are outstanding upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption or other acquisition by the Company of, the existing shares or shares of any other class of shares or any other series of preferred shares;
- (i) the conditions or restrictions, if any, upon the creation of indebtedness of the Company or upon the issue of any additional shares, including additional shares of such series or of any other class of shares or any other series of preferred shares; and
- (j) any other powers, preferences and relative, participating, optional and other special rights, and any qualifications, limitations and restrictions thereof;

and, for such purposes, the Directors may reserve an appropriate number of shares for the time being unissued.

### **10.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 this annual report.

### **10.D. Exchange Controls**

#### *Cayman Islands*

Currently there is no exchange control regulations in the Cayman Islands applicable to us and shareholders.

#### *Hong Kong*

There are no foreign exchange controls in Hong Kong and there is a free flow of capital into and out of Hong Kong. There are no restrictions on remittances of H.K. dollar or any other currency from Hong Kong to persons not resident in Hong Kong for the purpose of paying dividends or otherwise.

#### *PRC*

See “*Item 4. Information on the Company—B. Business Overview—Regulation—PRC Laws and Regulations Relating to Foreign Exchange*” for exchange controls in China.

### **10.E. Taxation**

The following summary of the material Cayman Islands, PRC, Hong Kong and U.S. tax consequences of an investment in our ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date hereof, all of which are subject to change, possibly with retroactive effect. This summary is not intended to be, nor should it be construed as, legal or tax advice and is not exhaustive of all possible tax considerations. This summary also does not deal with all possible tax consequences relating to an investment in our ordinary shares, such as the tax consequences under state, local, or under the tax laws of jurisdictions other than the Cayman Islands, PRC, Hong Kong and the United States. Investors should consult their own tax advisors with respect to the tax consequences of the acquisition, ownership and disposition of our ordinary shares.

#### **Cayman Islands Taxation**

The Cayman Islands currently levies 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 us 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 our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of the shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of the shares, nor will gains derived from the disposal of the shares be subject to Cayman Islands income or corporation tax.

No stamp duty is payable in respect of the issue of the shares or on an instrument of transfer in respect of a share.

#### **People’s Republic of China Taxation**

Under the EIT Law, an enterprise established outside the PRC with a “de facto management body” within the PRC is considered a PRC resident enterprise for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income as well as tax reporting obligations. Under the Implementation Rules, 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 properties of an enterprise. In addition, SAT Circular 82 issued in April 2009 specifies that certain offshore-incorporated enterprises controlled by PRC enterprises or PRC enterprise groups will be classified as PRC resident enterprises if all of the following conditions are met: (a) senior management personnel and core management departments in charge of the daily operations of the enterprises have their presence mainly in the PRC; (b) their financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (c) major assets, accounting books and company seals of the enterprises, and minutes and files of their board’s and shareholders’ meetings are located or kept in the PRC; and (d) half or more of the enterprises’ directors or senior management personnel with voting rights habitually reside in the PRC. Further to SAT Circular 82, the SAT issued SAT Bulletin 45, which took effect in September 2011, to provide more guidance on the implementation of SAT Circular 82. SAT Bulletin 45 provides for procedures and administration details of determination on PRC resident enterprise status and administration on post-determination matters. If the PRC tax authorities determine that the Company is a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. For example, Jiangsu Yanggu may be subject to enterprise income tax at a rate of 25% with respect to its worldwide taxable income. Also, a 10% withholding tax would be imposed on dividends we pay to our non-PRC enterprise shareholders and with respect to gains derived by our non-PRC enterprise shareholders from transferring our shares or ordinary shares and potentially a 20% of withholding tax would be imposed on dividends we pay to our non-PRC individual shareholders and with respect to gains derived by our non-PRC individual shareholders from transferring our shares or ordinary shares.

It is unclear whether, if we are considered a PRC resident enterprise, holders of our shares or ordinary shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. See *“Risk Factors—Risk Factors Relating to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.”*

The SAT issued SAT Circular 59 together with the Ministry of Finance in April 2009 and SAT Circular 698 in December 2009. Both SAT Circular 59 and SAT Circular 698 became effective retroactively as of January 1, 2008, and Circular 7 replaced some of the existing rules in Circular 698, effective in February 2015.

On October 17, 2017, the SAT promulgated Bulletin 37, and Circular 698 was replaced with effect from December 1, 2017. 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. We and non-resident enterprises in such transactions may become at risk of being subject to filing obligations or being taxed, under Circular 59 or Circular 7 and Bulletin 37, and may be required to expend valuable resources to comply with Circular 59, Circular 7 and Bulletin 37 or to establish that we and our non-resident enterprises should not be taxed under these circulars. In addition, in accordance with the Individual Income Tax Law promulgated by the Standing Committee of NPC late amended on August 31, 2018 and become effective on January 1, 2019, where an individual carries out other arrangements without reasonable business purpose and obtains improper tax gains, the tax authorities shall have the right to make tax adjustment based on a reasonable method, and levy additional tax and collect interest if there is a need to levy additional tax after making tax adjustments. As a result, our beneficial owners, who are PRC residents, may be deemed to have carried out other arrangements without reasonable business purpose and obtains improper tax gains for such indirect transfer, and thus be levied tax. See *“Risk Factors—Risk Factors Relating to Doing Business in China—Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.”*

Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, or the Tax Arrangement, where a Hong Kong resident enterprise which is considered a non-PRC tax resident enterprise directly holds at least 25% of a PRC enterprise, the withholding tax rate in respect of the payment of dividends by such PRC enterprise to such Hong Kong resident enterprise is reduced to 5% from a standard rate of 10%, subject to approval of the PRC local tax authority. Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or Circular 81, a resident enterprise of the counter-party to such Tax Arrangement should meet the following conditions, among others, in order to enjoy the reduced withholding tax under the Tax Arrangement: (i) it must directly own the required percentage of equity interests and voting rights in such PRC resident enterprise; and (ii) it should directly own such percentage in the PRC resident enterprise anytime in the 12 months prior to receiving the dividends. Furthermore, pursuant to the Administrative Measures for Non-Resident Taxpayers to Enjoy the Treaty Treatment, or the Administrative Measures, which became effective in January 2020, in order to enjoy the reduced withholding tax rate under the treaty treatment, non-resident taxpayers who meet the conditions for treaty treatment by their own judgment, may declare that they are entitled to the treaty treatment and accept the post-declaration supervision by the tax authority at the time of filing the tax return or at the time of providing information to the tax withholding agent. There are also other conditions for enjoying such reduced withholding tax rate according to other relevant tax rules and regulations. Accordingly, Jiangsu Yanggu may be able to enjoy the 5% withholding tax rate for the dividends it receives from the WFOE, if it satisfies the conditions prescribed under Circular 81 and other relevant tax rules and regulations, and obtains the approvals as required under the Administrative Measures. However, according to Circular 81, if the relevant tax authorities consider the transactions or arrangements are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future.

## **Hong Kong Taxation**

The taxation of income and capital gains of holders of ordinary shares is subject to the laws and practices of Hong Kong and of jurisdictions in which holders of ordinary shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions under Hong Kong law is based on current law and practice, is subject to changes therein and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the ordinary shares. Accordingly, each prospective investor (particularly those subject to special tax rules, such as banks, dealers, insurance companies, tax-exempt entities and holders of 10% or more of our voting capital stock) should consult its own tax advisor regarding the tax consequences of an investment in the ordinary shares. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

### *Tax on Dividends*

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

### *Profits Tax*

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the ordinary shares). Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% and 15% on corporations and unincorporated businesses, respectively, and at a maximum rate of 15% on individuals. Liability for Hong Kong profits tax may thus arise in respect of trading gains from sales of ordinary shares realized by persons carrying on a business or trading or dealing in securities in Hong Kong.

### *Stamp Duty*

Hong Kong stamp duty, currently charged at the rate of HK\$1 per HK\$1,000 or part thereof on the higher of the consideration for or the value of the ordinary shares, will be payable by the purchaser on every purchase and by the seller on every sale of ordinary shares (i.e., a total of HK\$2 per HK\$1,000 or part thereof is currently payable on a typical sale and purchase transaction involving ordinary shares). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of ordinary shares. If one of the parties to the sale is a non-Hong Kong resident and does not pay the required stamp duty, the duty not paid will be assessed on the instrument of transfer (if any) and the transferee will be liable for payment of such duty. No Hong Kong stamp duty is payable upon the transfer of ordinary shares outside Hong Kong.

### *Estate Duty*

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of ordinary shares whose death occurs on or after February 11, 2006.

## United States Federal Income Tax Considerations

The following is a discussion of United States federal income tax considerations relating to the acquisition, ownership, and disposition of our ordinary shares by a U.S. Holder, as defined below, that acquires our ordinary shares and holds our ordinary shares as “capital assets” (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended (the “Code”). This discussion is based upon existing United States federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to any United States federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion does not address all aspects of United States federal income taxation that may be important to particular investors in light of their individual circumstances, including investors subject to special tax rules (such as, for example, certain financial institutions, insurance companies, regulated investment companies, real estate investment trusts, broker-dealers, traders in securities that elect mark-to-market treatment, partnerships and their partners, tax-exempt organizations (including private foundations)), investors who are not U.S. Holders, investors that own (directly, indirectly, or constructively) 10% or more of our voting stock, investors that hold their ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction), or investors that have a functional currency other than the U.S. dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this discussion does not address any tax laws other than the United States federal income tax laws, including any state, local, alternative minimum tax or non-United States tax considerations, or the Medicare tax. Each potential investor is urged to consult its tax advisor regarding the United States federal, state, local and non-United States income and other tax considerations of an investment in our ordinary shares.

### *General*

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ordinary shares that is, for United States federal income tax purposes, (i) an individual who is a citizen or treated as a tax resident of the United States, (ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created in, or organized under the laws of, the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a United States person under the Code.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of our ordinary shares, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partnerships and partners of a partnership holding our ordinary shares are urged to consult their tax advisors regarding an investment in our ordinary shares.

The discussion set forth below is addressed only to U.S. Holders that purchase ordinary shares. Prospective purchasers are urged to consult their own tax advisors about the application of the U.S. federal income tax rules to their particular circumstances as well as the state, local, foreign and other tax consequences to them of the purchase, ownership and disposition of our ordinary shares.

### *Taxation of Dividends and Other Distributions on our Ordinary Shares*

Subject to the passive foreign investment company rules discussed below, the gross amount of distributions made by us to you with respect to the ordinary shares (including the amount of any taxes withheld therefrom) will generally be includable in your gross income as dividend income on the date of receipt by you, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). With respect to corporate U.S. Holders, the dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders, including individual U.S. Holders, dividends will be taxed at the lower capital gains rate applicable to qualified dividend income, provided that (1) the ordinary shares are readily tradable on an established securities market in the United States, or we are eligible for the benefits of an approved qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend is paid or the preceding taxable year, and (3) certain holding period requirements are met. Because there is no income tax treaty between the United States and the Cayman Islands, clause (1) above can be satisfied only if the ordinary shares are readily tradable on an established securities market in the United States. Under U.S. Internal Revenue Service authority, ordinary shares are considered for purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on certain exchanges, which presently include the Nasdaq. You are urged to consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our ordinary shares, including the effects of any change in law after the date of this report.

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), it will be treated first as a tax-free return of your tax basis in your ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

#### *Taxation of Dispositions of Ordinary Shares*

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of a share equal to the difference between the amount realized (in U.S. dollars) for the share and your tax basis (in U.S. dollars) in the ordinary shares. The gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ordinary shares for more than one year, you may be eligible for reduced tax rates on any such capital gains. The deductibility of capital losses is subject to limitations.

#### *Passive Foreign Investment Company ("PFIC")*

A non-U.S. corporation is considered a PFIC for any taxable year if either:

- at least 75% of its gross income for such taxable year is passive income; or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the "asset test").

Passive income generally includes dividends, interest, rents and royalties (other than rents or royalties derived from the active conduct of a trade or business) and gains from the disposition of passive assets. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock. In determining the value and composition of our assets for purposes of the PFIC asset test, (1) the cash we hold will generally be considered to be held for the production of passive income and (2) the value of our assets must be determined based on the market value of our ordinary shares from time to time, which could cause the value of our non-passive assets to be less than 50% of the value of all of our assets (including the cash raised in any offering) on any particular quarterly testing date for purposes of the asset test.



We must make a separate determination each year as to whether we are a PFIC. Depending on the amount of cash we hold, together with any other assets held for the production of passive income, it is possible that, for our current taxable year or for any subsequent taxable year, at least 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. Although the law in this regard is unclear, we treat the consolidated variable interest entity, as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their operating results in our consolidated financial statements. In particular, because the value of our assets for purposes of the asset test will generally be determined based on the market price of our ordinary shares and because cash is generally considered to be an asset held for the production of passive income, our PFIC status will depend in large part on the market price of our ordinary shares and the amount of cash we hold. Accordingly, fluctuations in the market price of the ordinary shares may cause us to become a PFIC. In addition, the application of the PFIC rules is subject to uncertainty in several respects. We are under no obligation to take steps to reduce the risk of our being classified as a PFIC, and as stated above, the determination of the value of our assets will depend upon material facts (including the market price of our ordinary shares from time to time that may not be within our control). If we are a PFIC for any year during which you hold ordinary shares, the shares will continue to be treated as stock in a PFIC for all succeeding years during which you hold ordinary shares. However, if we cease to be a PFIC and you did not previously make a timely “mark-to-market” election as described below, you may avoid some of the adverse effects of the PFIC regime by making a “purging election” (as described below) with respect to the ordinary shares.

If we are a PFIC for your taxable year(s) during which you hold ordinary shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ordinary shares;
- the amount allocated to your current taxable year, and any amount allocated to any of your taxable year(s) prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each of your other taxable year(s) will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ordinary shares cannot be treated as capital, even if you hold the ordinary shares as capital assets.

A U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment discussed above. If you make a mark-to-market election for first taxable year which you hold (or are deemed to hold) ordinary shares and for which we are determined to be a PFIC, you will include in your income each year an amount equal to the excess, if any, of the fair market value of the ordinary shares as of the close of such taxable year over your adjusted basis in such ordinary shares, which excess will be treated as ordinary income and not capital gain. You are allowed an ordinary loss for the excess, if any, of the adjusted basis of the ordinary shares over their fair market value as of the close of the taxable year. However, such ordinary loss is allowable only to the extent of any net mark-to-market gains on the ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to any loss realized on the actual sale or disposition of the ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ordinary shares. Your basis in the ordinary shares will be adjusted to reflect any such income or loss amounts. If you make a valid mark-to-market election, the tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us, except that the lower applicable capital gains rate for qualified dividend income discussed above under “— *Taxation of Dividends and Other Distributions on our ordinary shares*” generally would not apply.

The mark-to-market election is available only for “marketable stock”, which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market (as defined in applicable U.S. Treasury regulations), including Nasdaq. If the ordinary shares are regularly traded on Nasdaq and if you are a holder of ordinary shares, the mark-to-market election would be available to you were we to be or become a PFIC.

Alternatively, a U.S. Holder of stock in a PFIC may make a “qualified electing fund” election with respect to such PFIC to elect out of the tax treatment discussed above. A U.S. Holder who makes a valid qualified electing fund election with respect to a PFIC will generally include in gross income for a taxable year such holder’s pro rata share of the corporation’s earnings and profits for the taxable year. However, the qualified electing fund election is available only if such PFIC provides such U.S. Holder with certain information regarding its earnings and profits as required under applicable U.S. Treasury regulations. We do not currently intend to prepare or provide the information that would enable you to make a qualified electing fund election.

If you hold ordinary shares in any taxable year in which we are a PFIC, you will be required to file U.S. Internal Revenue Service Form 8621 in each such year and provide certain annual information regarding such ordinary shares, including regarding distributions received on the ordinary shares and any gain realized on the disposition of the ordinary shares.

If you do not make a timely “mark-to-market” election (as described above), and if we were a PFIC at any time during the period you hold our ordinary shares, then such ordinary shares will continue to be treated as stock of a PFIC with respect to you even if we cease to be a PFIC in a future year, unless you make a “purging election” for the year we cease to be a PFIC. A “purging election” creates a deemed sale of such ordinary shares at their fair market value on the last day of the last year in which we are treated as a PFIC. The gain recognized by the purging election will be subject to the special tax and interest charge rules treating the gain as an excess distribution, as described above. As a result of the purging election, you will have a new basis (equal to the fair market value of the ordinary shares on the last day of the last year in which we are treated as a PFIC) and holding period (which new holding period will begin the day after such last day) in your ordinary shares for tax purposes.

You are urged to consult your tax advisors regarding the application of the PFIC rules to your investment in our ordinary shares and the elections discussed above.

#### *Information Reporting and Backup Withholding*

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related intermediaries may be subject to information reporting and backup withholding, unless (i) the U.S. Holder is a corporation or other “exempt recipient” or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder’s U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS.

#### *Information with respect to foreign financial assets*

Certain U.S. Holders who are individuals (and, under proposed regulations, certain entities) may be required to report information relating to an interest in our ordinary shares, subject to certain exceptions (including an exception for ordinary shares held in accounts maintained by certain U.S. financial institutions). U.S. Holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of our ordinary shares.

**10.F. Dividends and Paying Agents**

Not Applicable.

**10.G. Statement by Experts**

Not Applicable.

**10.H. Documents on Display**

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with the SEC. All information filed with the SEC can be obtained over the internet at the SEC's website at [www.sec.gov](http://www.sec.gov) or inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. You may also visit us on the world wide web at <http://www.ocgroup.hk>. However, information contained on our website does not constitute a part of this annual report.

**10.I. Subsidiary Information**

Not Applicable.

**10.J. Annual Report to Security Holders**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***Liquidity risk*

We are exposed to liquidity risk, which is the risk that we will be unable to provide sufficient capital resources and liquidity to meet our commitments and business needs. Liquidity risk is controlled by the application of financial position analysis and monitoring procedures. When necessary, we will turn to other financial institutions to obtain short-term funding to meet the liquidity shortage.

*Inflation risk*

Inflationary factors, such as increases in personnel and overhead costs, could impair our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and operating expenses as a percentage of sales revenue if the revenues from our products do not increase with such increased costs.

*Interest rate risk*

Our exposure to interest rate risk primarily relates to the interest rate that our deposited cash can earn. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in interest rates. An increase in interest rates, however, may raise the cost of any debt we incur in the future.

*Foreign currency translation and transaction*

Our operating transactions and assets and liabilities are mainly denominated in RMB. RMB is not freely convertible into foreign currencies for capital account transactions. The value of 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. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not Applicable.

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

See “Item 10—Additional Information—B. Memorandum and Articles of Association—Common Shares” 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 on Form F-1, as amended (File number: 333-234654) in relation to the initial public offering of 5,065,000 ordinary shares of the Company. Our initial public offering closed in December 2020. ViewTrade Securities Inc. was the representative of the underwriters for our initial public offering. Counting in the ordinary shares sold upon the partial exercise of the over-allotment option by our underwriters, we offered and sold 5,124,400 ordinary shares and received net proceeds of approximately US\$17.3 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. The registration statement was declared effective by the SEC on December 1, 2020. The total expenses incurred for our Company’s account in connection with our initial public offering was approximately US\$3.2 million, which included approximately US\$1.4 million in underwriting discounts and commissions for the initial public offering and approximately US\$1.8 million in other costs and expenses for our initial public offering. None of the transaction expenses included payments to directors or officers of our Company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds we received from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

For the period from the date that the F-1 Registration Statement was declared effective by the SEC to December 31, 2022, we used approximately US\$2.7 million of the proceeds received from the initial public offering for the payment for upgrading information technology infrastructure, software, app development and system for our online platforms. There is no material change in the use of proceeds as described in the registration statement. We still intend to use the proceeds from our initial public offering as disclosed in our registration statement on Form F-1.

### ITEM 15. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our management has concluded that, due to the material weaknesses identified below, as of December 31, 2022, our disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act was accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

## Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15 (f) under the Exchange Act. As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2022, based on criteria established in the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was not effective as of December 31, 2022.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In the course of management's preparation and our independent registered public accounting firm's auditing of our consolidated financial statements as of and for the year ended December 31, 2022, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting. As defined in the standards established by the U.S. Public Company Accounting Oversight Board, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis, in accordance with the standards established by the Public Company Accounting Oversight Board of the United States.

The material weakness identified relates to our lack of in-house accounting personnel with appropriate knowledge of U.S. GAAP and SEC reporting requirements to prepare and review financial statements and related disclosures in accordance with U.S. GAAP and applicable requirements by SEC. Due to the foregoing material weakness, management concluded that as of December 31, 2022, our internal control over financial reporting was ineffective.

To remedy our identified material weakness identified to date, we have hired external accountants who have extensive experience in US GAAP and SEC reporting to help us in the preparation of our financial reports, and we also plan to undertake steps to strengthen our internal control over financial reporting, including (i) recruiting more financial reporting and accounting personnel who have adequate U.S. GAAP and SEC reporting knowledge; and (ii) implementing regular and continuous U.S. GAAP and SEC accounting and financial reporting training programs for our accounting and financial personnel.

However, we cannot assure you that we will remediate our material weakness in a timely manner, or at all. See *"Item 3. Key Information—Risk Factors—Risks Related to Our Business—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."*

As a company with less than US\$1.235 billion in revenue for our last fiscal year, we qualify as an "emerging growth company" pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company's internal control over financial reporting.

## Attestation Report of the Registered Public Accounting Firm

As a Company with less than \$1.235 billion in revenue for our last fiscal year, we qualify as an "emerging growth company" pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002, in the assessment of the emerging growth company's internal control over financial reporting. This annual report on Form 20-F does not include an attestation report of our registered public accounting firm because we are an emerging growth company.

## Changes in Internal Control

Other than as described 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.A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Nelson Wong, Chairman of our audit committee and an independent director (under the standards set forth in Nasdaq Stock Market Rule 5605(a)(2) and Rule 10A-3 under the Exchange Act), is an audit committee financial expert.

### ITEM 16.B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to all of the directors, officers and employees of our company. We have filed our code of business conduct and ethics as Exhibit 99.1 of our registration statement on Form F-1 (File Number: 333-234654), as amended, initially filed with the SEC on November 12, 2019, and a copy is available to any shareholder upon request. We have also posted the code on our corporate website at [www.ocgroup.hk](http://www.ocgroup.hk).

### ITEM 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Wei Wei & Co., LLP, our independent registered public accounting firm, for the periods indicated.

|                       | Year Ended<br>December 31,<br>2022 | Year Ended<br>December 31,<br>2021 |
|-----------------------|------------------------------------|------------------------------------|
| Audit fees(1)         | \$ 184,000                         | \$ 160,000                         |
| Audit related fees(2) |                                    | -                                  |
| Tax fees(3)           |                                    | -                                  |
| All other fees(4)     | 60,000                             | -                                  |
| <b>TOTAL</b>          | <b>\$ 244,000</b>                  | <b>\$ 160,000</b>                  |

- (1) "Audit fees" means the aggregate fees billed for each of the fiscal years for professional services rendered by our principal accountant for the audit of our annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.
- (2) "Audit related fees" means the aggregate fees billed for each of the fiscal years for assurance and related services by our principal accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under paragraph (1).
- (3) "Tax Fees" represents the aggregate fees billed in each of the fiscal years listed for the professional tax services rendered by our principal auditors.
- (4) "All Other Fees" represents the aggregate fees billed in each of the fiscal years listed for services rendered by our principal auditors other than services reported under "Audit fees," "Audit-related fees" and "Tax fees."

The policy of our audit committee and our board of directors is to pre-approve all audit and non-audit services provided by our principal auditors, including audit services, audit-related services, and other services as described above, other than those for de minimis services which are approved by the audit committee prior to the completion of the services.

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

Not Applicable.

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

Neither we nor any “affiliated purchaser,” as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

**ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT**

Not Applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

As a Cayman Islands exempted company listed on the Nasdaq Capital Market, or Nasdaq, we are subject to the Nasdaq corporate governance requirements. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance requirements. Currently, we follow our home country practice in lieu of the provisions under Rule 5620(a), Rule 5635(a)(1), Rule 5635(b), Rule 5635(c) and Rule 5635(d) of the NASDAQ Stock Market Marketplace Rules (the “Rules”). Rule 5620(a) requires that the Company to hold an annual meeting of shareholders no later than one year after the end of the Company’s fiscal year-end; Rule 5635(a)(1) of the Rules requires shareholder approval for the issuance of securities in connection with the acquisition of the stock or assets of another company; Rule 5635(b) of the Rules requires shareholder approval for the issuance of securities when the issuance will result in a change of control of the company; Rule 5635(c) of the Rules requires shareholder approval for share incentive plans; and Rule 5635(d) of the Rules requires shareholder approval for the issuance of securities, other than in a public offering, equal to 20% or more of the voting power outstanding before the issuance for less than the greater of book or market value of the stock. The corporate governance practice in our home country, the Cayman Islands, does not require the Company to follow or comply with the requirements of Rule 5620(a), Rule 5635(a)(1), Rule 5635(b), Rule 5635(c) and Rule 5635(d). If we choose to follow additional home country practice in the future, our shareholders may be afforded less protection than they would otherwise enjoy under the Nasdaq corporate governance requirements applicable to U.S. domestic issuers. See “*Item 3. Key Information — D. Risk Factors— Risks Related to Our Ordinary Shares—Because we are a foreign private issuer and are exempt from certain NASDAQ corporate governance standards applicable to U.S. issuers, you may have less protection than you would have if we were a domestic issuer.*”

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

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 and related notes required by this item are contained on pages F-1 through F-36.

#### ITEM 19. EXHIBITS

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 1.1                | <a href="#">Second Amended and Restated Memorandum of Association (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)</a>  |
| 1.2                | <a href="#">Second Amended and Restated Articles of Association (incorporated herein by reference to Exhibit 3.3 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)</a>  |
| 2.1                | <a href="#">Specimen certificate evidencing ordinary shares (incorporated herein by reference to Exhibit 4.1 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)</a>  |
| 2.2*               | <a href="#">Description Of Securities</a>   |
| 4.1                | <a href="#">Sale and Purchase Agreement in Respect of 100% of Issued Share Capital of HKDAEX Limited by and between HKFAEX Group Limited and Oriental Culture Holding LTD dated May 7, 2019 (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)</a>   |
| 4.2                | <a href="#">Sale and Purchase Agreement in Respect of 100% of Issued Share Capital of China International Assets and Equity of Artworks Exchange Limited by and between HKFAEX Group Limited and Oriental Culture Holding LTD dated May 7, 2019 (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)**</a>                     |
| 4.3                | <a href="#">Technical Consultation and Service Agreement, by and between Nanjing Rongke Business Consulting Service Co., Ltd. and Jiangsu Yanggu Culture Development Co., Ltd. dated May 8, 2019 (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)</a>  |
| 4.4                | <a href="#">Equity Pledge Agreement, by and among Nanjing Rongke Business Consulting Service Co., Ltd., Jiangsu Yanggu Culture Development Co., Ltd. and Jiangsu Yanggu Culture Development Co., Ltd.'s shareholders dated May 8, 2019 (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)</a>                                |
| 4.5                | <a href="#">Equity Option Agreement, by and among Nanjing Rongke Business Consulting Service Co., Ltd., Jiangsu Yanggu Culture Development Co., Ltd. and Jiangsu Yanggu Culture Development Co., Ltd.'s shareholders dated May 8, 2019 (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)</a>                                |
| 4.6                | <a href="#">Voting Rights Proxy and Financial Supporting Agreement, by and among Nanjing Rongke Business Consulting Service Co., Ltd., Jiangsu Yanggu Culture Development Co., Ltd. and Jiangsu Yanggu Culture Development Co., Ltd.'s shareholders dated May 8, 2019 (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)</a> |
| 4.7                | <a href="#">Employment Agreement by and between the Registrant and Yi Shao dated May 10, 2019 (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)</a>   |
| 4.8                | <a href="#">Employment Agreement by and between the Registrant and Lijia Ni dated May 10, 2019 (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)</a>  |
| 4.9                | <a href="#">Form of Indemnification Agreement by and between the Registrant and executive officers and directors of the Registrant (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)</a>  |

- 4.10 [Form of Indemnification Escrow Agreement \(incorporated herein by reference to Exhibit 10.10 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.11 [Independent Director Agreement by and between the Registrant and Y. Tristan Kuo dated November 6, 2019 \(incorporated herein by reference to Exhibit 10.11 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.12 [Independent Director Agreement by and between the Registrant and Bennet P. Tchaikovsky dated January 15, 2020 \(incorporated herein by reference to Exhibit 10.12 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.13 [Independent Director Agreement by and between the Registrant and Xiaobing Liu dated May 10, 2019 \(incorporated herein by reference to Exhibit 10.13 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.14 [Director Agreement by and between the Registrant and Mun Wah Wan dated March 6, 2020 \(incorporated herein by reference to Exhibit 10.14 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.15 [Director Agreement by and between the Registrant and Yi Shao dated March 6, 2020 \(incorporated herein by reference to Exhibit 10.15 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.16 [Website Advertising Space Leasing Agreement by and between Kashi Jinwang Art Purchase E-commerce Co., Ltd. and Kashi Longrui Business Management Services Co., Ltd. \(incorporated herein by reference to Exhibit 10.17 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.17 [Technical Maintenance Services Contract by and between Hunan Huaqiang Artwork Trading Center Co., Ltd. and Nanjing Yanyu Information Technology Co., Ltd. \(incorporated herein by reference to Exhibit 10.18 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.18 [Technical Maintenance Services Contract by and between Kashi Jinwang Art Purchase E-commerce Co., Ltd. and Nanjing Yanyu Information Technology Co., Ltd. \(incorporated herein by reference to Exhibit 10.19 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.19 [Technical Maintenance Services Contract by and between Nanjing Jinwang Art Purchase E-commerce Co., Ltd. and Nanjing Yanyu Information Technology Co., Ltd. dated July 1, 2018 \(incorporated herein by reference to Exhibit 10.20 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.20 [Cooperation Agreement and Amendment to Cooperation Agreement by and between Kashi Dongfang Cangpin Culture Development Co., Ltd. and Zhongcang Warehouse Co., Ltd. dated September 1, 2018 and September 15, 2018 \(incorporated herein by reference to Exhibit 10.21 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.21 [Technical Maintenance Services Contract by and between Nanjing Culture and Artwork Property Exchange Co., Ltd. and Nanjing Yanyu Information Technology Co., Ltd. dated July 1, 2018 \(incorporated herein by reference to Exhibit 10.23 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)

- 4.22 [Technical Maintenance Services Contract by and between Jinling Cultural Property Rights Exchange Co., Ltd. and Nanjing Yanyu Information Technology Co., Ltd. dated October 1, 2018 \(incorporated herein by reference to Exhibit 10.24 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.23 [Administration Services Agreement by and between HKDAEx Limited and HKFAEx Limited dated August 1, 2018 \(incorporated herein by reference to Exhibit 10.25 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)\\*\\*](#)
- 4.24 [Office Premises Use Contract by and between Nanjing Culture and Artwork Property Exchange Co., Ltd. and Kashi Longrui Business Management Services Co., Ltd. dated January 1, 2020 \(incorporated herein by reference to Exhibit 10.26 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.25 [Cooperation Agreement by and between China International Assets and Equity of Artworks Exchange Limited and Nanjing Jinwang Art Purchase E-commerce Co., Ltd. on January 1, 2018 \(incorporated herein by reference to Exhibit 10.29 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.26 [Cooperation Agreement by and between HKDAEx Limited and Nanjing Jinwang Art Purchase E-commerce Co., Ltd. on March 15, 2019 \(incorporated herein by reference to Exhibit 10.30 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.27 [Product Consulting Service Agreement by and between Nanjing Pusideng Information Technology Co., Ltd. and Kashi Longrui Business Management Services Co., Ltd. in 2019 \(incorporated herein by reference to Exhibit 10.31 to the registration statement on Form F-1 \(File No. 333-234654\), as amended, initially filed with the SEC on November 12, 2019\)](#)
- 4.28 [Renewal of Employment Agreement by and between the Company and Yi Shao \(incorporated herein by reference to Exhibit 4.33 to Form 20-F filed with the SEC on April 30, 2021\)](#)
- 4.29 [Renewal of Employment Agreement by and between the Company and Lijia Ni \(incorporated herein by reference to Exhibit 4.34 to Form 20-F filed with the SEC on April 30, 2021\)](#)
- 4.30 [Office Premises Use Contract by and between Nanjing Culture and Artwork Property Exchange Co., Ltd. and Kashi Longrui Business Management Services Co., Ltd. dated January 1, 2021 \(incorporated herein by reference to Exhibit 4.35 to Form 20-F filed with the SEC on April 30, 2021\)](#)
- 4.31 [Form of Amended and Restated Equity Pledge Agreement by and among Nanjing Rongke, Jiangsu Yanggu and shareholders of Jiangsu Yanggu \(incorporated herein by reference to Exhibit 10.1 to Form 6-K filed with the SEC on February 1, 2021\)](#)
- 4.32 [Form of Amended and Restated Equity Option Agreement by and among Nanjing Rongke, Jiangsu Yanggu and shareholders of Jiangsu Yanggu \(incorporated herein by reference to Exhibit 10.2 to Form 6-K filed with the SEC on February 1, 2021\)](#)
- 4.33 [Form of Amended and Restated Voting Rights Proxy and Financial Supporting Agreement by and among Nanjing Rongke, Jiangsu Yanggu and shareholders of Jiangsu Yanggu \(incorporated herein by reference to Exhibit 10.3 to Form 6-K filed with the SEC on February 1, 2021\)](#)
- 4.34 [Employment Agreement by and between the Company and Yi Shao dated April 27, 2021\(incorporated herein by reference to Exhibit 4.39 to Form 20-F filed with the SEC on April 30, 2021\)](#)
- 4.35 [Employment Agreement by and between the Company and Lijia Ni dated April 27, 2021\(incorporated herein by reference to Exhibit 4.40 to Form 20-F filed with the SEC on April 30, 2021\)](#)
- 4.36 [Technical Maintenance Services Contract by and between Kashi Jinwang Art Purchase E-commerce Co., Ltd. and Nanjing Yanyu Information Technology Co., Ltd. \(incorporated herein by reference to Exhibit 4.36 to Form 20-F filed with the SEC on May 2, 2022\)](#)
- 4.37 [Technical Maintenance Services Contract by and between Jinling Cultural Property Rights Exchange Co., Ltd. and Nanjing Yanyu Information Technology Co., Ltd. dated July 1, 2021. \(incorporated herein by reference to Exhibit 4.37 to Form 20-F filed with the SEC on May 2, 2022\)](#)
- 4.38 [Technical Maintenance Services Contract by and between Nanjing Culture and Artwork Property Exchange Co., Ltd. and Nanjing Yanyu Information Technology Co., Ltd. dated July 1, 2021. \(incorporated herein by reference to Exhibit 4.38 to Form 20-F filed with the SEC on May 2, 2022\)](#)
- 4.39 [Technical Maintenance Services Contract by and between Hunan Huaqiang Artwork Trading Center Co., Ltd. and Nanjing Yanyu Information Technology Co., Ltd. dated July 1, 2021. \(incorporated herein by reference to Exhibit 4.39 to Form 20-F filed with the SEC on May 2, 2022\)](#)
- 4.40 [Office Premises Use Contract by and between Nanjing Culture and Artwork Property Exchange Co., Ltd. and Kashi Longrui Business Management Services Co., Ltd. dated January 1, 2022\(incorporated herein by reference to Exhibit 4.40 to Form 20-F filed with the SEC on May 2, 2022\)](#)
- 4.41 [Preowned Property Purchase and Sale Agreement by and among Nanjing Z-COM Wireless Communication Technology Co., Ltd., Kashi Longrui Business Management Service Co., Ltd., and Kashi Dongfang Cangpin Culture Development Co., Ltd. on November 4, 2021. \(incorporated herein by reference to Exhibit 4.41 to Form 20-F filed with the SEC on May 2, 2022\)](#)

|         |   |
|---------|---|
| 4.42    | <a href="#">Oriental Culture Holding LTD 2021 Omnibus Equity Plan (incorporated herein by reference to Annex A of Exhibit 99.1 to the Form 6-K, filed with the SEC on November 9, 2021)</a>   |
| 4.43    | <a href="#">Form of Securities Purchase Agreement (incorporated herein by reference to Exhibit 99.1 to Form 6-K filed with the SEC on December 8, 2021)</a>   |
| 4.44    | <a href="#">Form of Warrants (incorporated herein by reference to Exhibit 99.2 to Form 6-K filed with the SEC on December 8, 2021)</a>  |
| 4.45    | <a href="#">Website Advertising Space Leasing Agreement by and between Kashi Jinwang Art Purchase E-commerce Co., Ltd. and Kashi Longrui Business Management Services Co., Ltd. dated on January 1, 2022. (incorporated herein by reference to Exhibit 4.45 to Form 20-F filed with the SEC on May 2, 2022)</a> |
| 4.46    | <a href="#">Cooperation Agreement by and between Kashi Dongfang Cangpin Culture Development Co., Ltd. and Zhongcang Warehouse Co., Ltd. dated January 1, 2021 (incorporated herein by reference to Exhibit 4.46 to Form 20-F filed with the SEC on May 2, 2022)</a>   |
| 4.47*   | <a href="#">Technical Maintenance Services Contract by and between Kashi Jinwang Art Purchase E-commerce Co., Ltd. and Nanjing Yanyu Information Technology Co., Ltd. dated July 1, 2022</a>  |
| 4.48*   | <a href="#">Office Premises Use Contract by and between Nanjing Cultural and Artwork Property Exchange Co., Ltd. and Kashi Longrui Business Management Services Co., Ltd. dated December 31, 2022</a>   |
| 8.1*    | <a href="#">List of Subsidiaries of the Registrant</a>  |
| 11.1    | <a href="#">Code of Business Conduct and Ethics(incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-234654), as amended, initially filed with the SEC on November 12, 2019)</a>  |
| 12.1*   | <a href="#">CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>   |
| 12.2*   | <a href="#">CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>   |
| 13.1*   | <a href="#">CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |
| 13.2*   | <a href="#">CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |
| 15.1*   | <a href="#">Consent of Jiangsu Taikun Law Firm</a>  |
| 15.2*   | <a href="#">Consent of Wei Wei &amp; Co., LLP</a>   |
| 101.INS | Inline XBRL Instance Document *   |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document *  |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document *  |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document *   |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document *  |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document *   |
| 104     | Cover Page Interactive Data File formatted as Inline XBRL and contained in Exhibit 101 *  |

\* Filed as an exhibit hereto.

**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.

**Oriental Culture Holding LTD.**

/s/ Yi Shao

\_\_\_\_\_  
Name: Yi Shao

Title: Chief Executive Officer

Date: May 1, 2023

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**TABLE OF CONTENTS**

|   |     |
|---|-----|
| <a href="#">Report of Independent Registered Public Accounting Firm (PCAOB ID:2388)</a>   | F-2 |
| Consolidated Financial Statements   |     |
| <a href="#">Consolidated balance sheets as of December 31, 2022 and 2021</a>  | F-3 |
| <a href="#">Consolidated statements of income and comprehensive income for the years ended December 31, 2022, 2021 and 2020</a> | F-4 |
| <a href="#">Consolidated statements of changes in shareholders' equity</a>  | F-5 |
| <a href="#">Consolidated statements of cash flows for the years ended December 31, 2022, 2021 and 2020</a>                      | F-6 |
| <a href="#">Notes to Consolidated Financial Statements</a>  | F-7 |



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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
of Oriental Culture Holding Ltd.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Oriental Culture Holding Ltd. and Subsidiaries (collectively, the "Company") as of December 31, 2022 and 2021, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

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

Our audits included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Wei, Wei & Co., LLP

Flushing, New York  
May 1, 2023

We have served as the Company's auditors since 2019.

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

|  | <b>December 31,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|--|------------------------------|------------------------------|
| <b>ASSETS</b>  |                              |                              |
| <b>CURRENT ASSETS</b>  |                              |                              |
| Cash and equivalents   | \$ 17,188,833                | \$ 29,398,047                |
| Restricted cash  | 11,796,388                   | -                            |
| Short-term investment  | -                            | 3,748,900                    |
| Restricted investment  | 4,703,323                    | -                            |
| Accounts receivable, net   | 207                          | 47,060                       |
| Accounts receivable – related party  | 29,311                       | 8,093                        |
| Other receivables and prepaid expenses   | 4,441,946                    | 1,385,394                    |
| Other receivables - related party  | 3,421,345                    | 928,913                      |
| Escrow   | 600,000                      | 600,000                      |
| Total current assets   | <u>42,181,353</u>            | <u>36,116,407</u>            |
| <b>PROPERTY AND EQUIPMENT, NET</b>   | <u>9,423,713</u>             | <u>9,904,289</u>             |
| <b>OTHER ASSETS</b>  |                              |                              |
| Certificate of deposit   | -                            | 3,136,910                    |
| Right-of-use assets  | 34,345                       | 11,494                       |
| Cost method Investment   | 932,552                      | 548,151                      |
| Intangible assets, net   | 816,885                      | 1,120,021                    |
| Total other assets   | <u>1,783,782</u>             | <u>4,816,576</u>             |
| Total assets   | <u>\$ 53,388,848</u>         | <u>\$ 50,837,272</u>         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                              |                              |
| <b>CURRENT LIABILITIES</b>   |                              |                              |
| Accounts payable   | \$ 2,959,415                 | \$ 1,625,494                 |
| Accounts payable – related party   | 28,727                       | -                            |
| Deferred revenue   | 449,037                      | 697,863                      |
| Other payables and accrued liabilities   | 290,150                      | 1,284,235                    |
| Taxes payable  | 13,372                       | 29,826                       |
| Lease liability - current  | 20,808                       | 11,494                       |
| Total current liabilities  | <u>3,761,509</u>             | <u>3,648,912</u>             |
| <b>OTHER LIABILITIES</b>   |                              |                              |
| Lease liability - noncurrent   | <u>11,491</u>                | <u>-</u>                     |
| Total liabilities  | <u>3,773,000</u>             | <u>3,648,912</u>             |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                              |                              |
| <b>SHAREHOLDERS' EQUITY</b>  |                              |                              |
| Preferred shares, \$0.00005 par value, 100,000,000 shares authorized, no shares issued and outstanding   | -                            | -                            |
| Ordinary shares, \$0.00005 par value, 900,000,000 shares authorized, 30,836,992 and 30,654,712 shares issued, 21,226,992 and 21,044,712 shares outstanding as of December 31, 2022 and December 31, 2021, respectively | 1,542                        | 1,533                        |
| Treasury shares, at cost, 9,610,000 shares   | (481)                        | (481)                        |
| Additional paid-in capital   | 22,349,767                   | 21,884,962                   |
| Subscription receivable  | -                            | (1,000,000)                  |
| Statutory reserves   | 124,757                      | 112,347                      |
| Retained earnings  | 28,315,319                   | 25,092,043                   |
| Accumulated other comprehensive income (loss)  | (1,175,056)                  | 1,097,956                    |
| Total shareholders' equity   | <u>49,615,848</u>            | <u>47,188,360</u>            |
| Total liabilities and shareholders' equity   | <u>\$ 53,388,848</u>         | <u>\$ 50,837,272</u>         |

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



**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

|   | <b>Year Ended December 31,</b> |                      |                     |
|---|--------------------------------|----------------------|---------------------|
|   | <b>2022</b>                    | <b>2021</b>          | <b>2020</b>         |
| <b>OPERATING REVENUES:</b>                        |                                |                      |                     |
| Net revenues                                      | \$ 17,646,814                  | \$ 37,363,303        | \$ 17,225,630       |
| Net revenues - related parties                    | 166,325                        | 233,157              | 213,172             |
| Total operating revenues                          | <u>17,813,139</u>              | <u>37,596,460</u>    | <u>17,438,802</u>   |
| <b>COST OF REVENUES:</b>                          | <u>(996,459)</u>               | <u>(2,425,420)</u>   | <u>(2,642,163)</u>  |
| <b>GROSS PROFIT</b>                               | <u>16,816,680</u>              | <u>35,171,040</u>    | <u>14,796,639</u>   |
| <b>OPERATING EXPENSES:</b>                        |                                |                      |                     |
| Selling and marketing                             | (7,668,248)                    | (15,598,482)         | (4,242,231)         |
| Selling and marketing - related party             | (43,590)                       | (359,968)            | (1,762,652)         |
| General and administrative                        | (6,276,661)                    | (8,103,840)          | (6,943,803)         |
| General and administrative - related parties      | (238,830)                      | (223,284)            | (201,865)           |
| Total operating expenses                          | <u>(14,227,329)</u>            | <u>(24,285,574)</u>  | <u>(13,150,551)</u> |
| <b>INCOME FROM OPERATIONS</b>                     | <u>2,589,351</u>               | <u>10,885,466</u>    | <u>1,646,088</u>    |
| <b>OTHER INCOME</b>                               |                                |                      |                     |
| Gain from short-term investment                   | 156,066                        | 169,065              | 93,007              |
| Interest income                                   | 226,158                        | 197,237              | 139,916             |
| Other income, net                                 | 268,923                        | 192,505              | 169,096             |
| Total other income, net                           | <u>651,147</u>                 | <u>558,807</u>       | <u>402,019</u>      |
| <b>INCOME BEFORE INCOME TAXES</b>                 | 3,240,498                      | 11,444,273           | 2,048,107           |
| <b>PROVISION FOR INCOME TAX</b>                   | <u>4,812</u>                   | <u>-</u>             | <u>-</u>            |
| <b>NET INCOME</b>                                 | 3,235,686                      | 11,444,273           | 2,048,107           |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>          |                                |                      |                     |
| Foreign currency translation adjustment           | <u>(2,273,012)</u>             | <u>174,841</u>       | <u>1,144,657</u>    |
| <b>COMPREHENSIVE INCOME</b>                       | <u>\$ 962,674</u>              | <u>\$ 11,619,114</u> | <u>\$ 3,192,764</u> |
| <b>WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES</b> |                                |                      |                     |
| Basic and diluted                                 | <u>21,108,143</u>              | <u>20,484,272</u>    | <u>15,615,729</u>   |
| <b>EARNINGS PER SHARE</b>                         |                                |                      |                     |
| Basic and diluted                                 | <u>\$ 0.15</u>                 | <u>\$ 0.56</u>       | <u>\$ 0.13</u>      |

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

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

|   | Preferred shares |           | Ordinary shares |           | Treasury shares |           | Additional paid-in capital | Share subscription receivable | Statutory reserves | Retained earnings | Accumulated other comprehensive income(loss) | Total        |
|---|------------------|-----------|-----------------|-----------|-----------------|-----------|----------------------------|-------------------------------|--------------------|-------------------|--|--------------|
|   | Shares           | Par Value | Shares          | Par Value | Shares          | Par Value |                            |                               |                    |                   |  |              |
| BALANCE, DECEMBER 31, 2019                                      | -                | \$ -      | 24,800,000      | \$ 1,240  | (9,610,000)     | \$ (481)  | \$ 1,608,045               | \$ -                          | \$ 112,347         | \$11,599,663      | \$ (221,542)                                 | \$13,099,272 |
| Issuance of shares in initial public offering, net              | -                | -         | 5,124,400       | 256       | -               | -         | 17,276,954                 | -                             | -                  | -                 | -  | 17,277,210   |
| Cashless exercise of warrants                                   | -                | -         | 130,312         | 7         | -               | -         | (7)                        | -                             | -                  | -                 | -  | -            |
| Net income  | -                | -         | -               | -         | -               | -         | -                          | -                             | -                  | 2,048,107         | -  | 2,048,107    |
| Foreign currency translation                                    | -                | -         | -               | -         | -               | -         | -                          | -                             | -                  | -                 | 1,144,657                                    | 1,144,657    |
| BALANCE, DECEMBER 31, 2020                                      | -                | -         | 30,054,712      | 1,503     | (9,610,000)     | (481)     | 18,884,992                 | -                             | 112,347            | 13,647,770        | 923,115                                      | 33,569,246   |
| Issuance of ordinary share through initial public offering, net | -                | -         | 600,000         | 30        | -               | -         | 2,999,970                  | (1,000,000)                   | -                  | -                 | -  | 2,000,000    |
| Net income  | -                | -         | -               | -         | -               | -         | -                          | -                             | -                  | 11,444,273        | -  | 11,444,273   |
| Foreign currency translation                                    | -                | -         | -               | -         | -               | -         | -                          | -                             | -                  | -                 | 174,841                                      | 174,841      |
| BALANCE, DECEMBER 31, 2021                                      | -                | -         | 30,654,712      | 1,533     | (9,610,000)     | (481)     | 21,884,962                 | (1,000,000)                   | 112,347            | 25,092,043        | 1,097,956                                    | 47,188,360   |
| Share subscription received                                     | -                | -         | -               | -         | -               | -         | -                          | 1,000,000                     | -                  | -                 | -  | 1,000,000    |
| Issuance of ordinary shares for consulting fees                 | -                | -         | 182,280         | 9         | -               | -         | 464,805                    | -                             | -                  | -                 | -  | 464,814      |
| Net income  | -                | -         | -               | -         | -               | -         | -                          | -                             | -                  | 3,235,686         | -  | 3,235,686    |
| Statutory reserve   | -                | -         | -               | -         | -               | -         | -                          | -                             | 12,410             | (12,410)          | -  | -            |
| Foreign currency translation                                    | -                | -         | -               | -         | -               | -         | -                          | -                             | -                  | -                 | (2,273,012)                                  | (2,273,012)  |
| BALANCE, December 31, 2022                                      | -                | \$ -      | 30,836,992      | \$ 1,542  | (9,610,000)     | \$ (481)  | \$22,349,767               | \$ -                          | \$ 124,757         | \$28,315,319      | \$ (1,175,056)                               | \$49,615,848 |

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

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | Year Ended December 31, |                      |                     |
|---|-------------------------|----------------------|---------------------|
|   | 2022                    | 2021                 | 2020                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                         |                      |                     |
| Net income  | \$ 3,235,686            | \$ 11,444,273        | \$ 2,048,107        |
| Adjustments to reconcile net income to net cash (used in) provided by Operating activities:         |                         |                      |                     |
| Depreciation and amortization   | 654,709                 | 399,223              | 308,274             |
| Gain from short-term investment   | (156,066)               | (169,065)            | (93,007)            |
| Loss from disposal of equipment   | -                       | -                    | 437                 |
| Provision for doubtful accounts   | 44,602                  | 108,502              | 117,432             |
| Non-cash lease expense  | 22,890                  | 23,075               | -                   |
| Impairment loss on intangible assets  | -                       | 25,590               | -                   |
| Common stock issue for services   | 464,814                 | -                    | -                   |
| Change in operating assets and liabilities:   |                         |                      |                     |
| (Increase) decrease in accounts receivable  | (200)                   | 251,997              | 779,503             |
| (Increase) in accounts receivable - related parties   | (22,679)                | (7,998)              | -                   |
| (Increase) in other receivables and prepaid expenses  | (3,181,230)             | (874,228)            | (778,684)           |
| Decrease (Increase) in other receivables - related parties  | (2,662,141)             | 1,840,109            | (1,436,464)         |
| Increase (Decrease) in accounts payable   | 1,515,337               | (3,246,292)          | 4,392,974           |
| (Decrease) increase in accounts payable - related parties   | 28,167                  | (1,241,722)          | 952,820             |
| (Decrease) increase in deferred revenue   | (196,548)               | 443,540              | 51,738              |
| (Decrease) increase in other payables and accrued liabilities                                       | (919,371)               | 192,497              | 288,331             |
| (Decrease) in rent payable - related party  | -                       | (7,294)              | (54,273)            |
| (Decrease) increase in taxes payable  | (14,427)                | (157,320)            | 33,662              |
| (Decrease) in lease liability   | (24,928)                | -                    | -                   |
| Net cash provided by (used in) operating activities   | <u>(1,211,385)</u>      | <u>9,024,887</u>     | <u>6,610,850</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                         |                      |                     |
| Purchase of short-term investments  | (22,152,510)            | (44,921,336)         | (24,422,988)        |
| Proceed from sale of short-term investments   | 23,965,569              | 42,453,852           | 25,285,807          |
| Purchase of cost method investments   | (446,024)               | -                    | -                   |
| Purchase of certificate of deposit  | -                       | (3,136,910)          | -                   |
| Purchase of property, plant and equipment   | (708,951)               | (9,598,351)          | (9,388)             |
| Purchase of intangible assets   | (49,613)                | (785,590)            | (9,642)             |
| Refund (payment) of real estate purchase  | -                       | 13,178,917           | (12,613,083)        |
| Net cash provided by (used in) investing activities   | <u>608,471</u>          | <u>(2,809,418)</u>   | <u>(11,769,294)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                         |                      |                     |
| Proceeds from share subscription  | 1,000,000               | 2,000,000            | 18,090,668          |
| Net cash provided by financing activities   | <u>1,000,000</u>        | <u>2,000,000</u>     | <u>18,090,668</u>   |
| EFFECT OF EXCHANGE RATE ON CASH AND EQUIVALENTS   | <u>(809,912)</u>        | <u>(126,514)</u>     | <u>322,580</u>      |
| (DECREASE) INCREASE IN CASH AND EQUIVALENTS   | (412,826)               | 8,088,955            | 13,254,804          |
| CASH AND EQUIVALENTS, beginning of year   | 29,398,047              | 21,309,092           | 8,054,288           |
| CASH AND EQUIVALENTS, end of year   | <u>\$ 28,985,221</u>    | <u>\$ 29,398,047</u> | <u>21,309,092</u>   |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>  |                         |                      |                     |
| Cash paid for income tax  | \$ -                    | \$ -                 | \$ -                |
| Cash paid for interest  | \$ -                    | \$ -                 | \$ -                |
| <b>NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES</b>                                  |                         |                      |                     |
| Proceeds from initial public offerings deposited with escrow  | \$ -                    | \$ -                 | \$ 600,000          |
| Initial recognition of right-of-use assets and lease liabilities                                    | \$ 45,659               | \$ 34,608            | \$ -                |
|   | <b>2022</b>             | <b>2021</b>          | <b>2020</b>         |
| Cash and cash equivalents   | 17,188,833              | 29,398,047           | 21,309,092          |
| Restricted cash   | 11,796,388              | -                    | -                   |
| Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows | <u>28,985,221</u>       | <u>29,398,047</u>    | <u>21,309,092</u>   |

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

## ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1 – Nature of business and organization

Oriental Culture Holding Ltd. (“Oriental Culture”) is a holding company incorporated on November 29, 2018, under the laws of the Cayman Islands. Oriental Culture Holding Ltd., its subsidiaries and variable interest entity (“VIE”) and its subsidiaries are hereafter referred to as the “Company”.

Oriental Culture has no substantial operations other than holding all of the outstanding share capital of Oriental Culture Development (“Oriental Culture BVI”), China International Assets and Equity of Artworks Exchange Limited (“International Culture”) and HKDAEx Limited. Oriental Culture BVI is also a holding company holding all of the outstanding share capital of HK Oriental Culture Investment Development Limited (“Oriental Culture HK”). Oriental Culture HK is also a holding company holding all of the outstanding equity of Nanjing Rongke Business Consulting Service Co., Ltd. (“Oriental Culture WFOE” or “WFOE”).

The Company, through its direct subsidiary Oriental Culture HK and VIE, Jiangsu Yanggu Culture Development Co., Ltd. and subsidiaries (“Jiangsu Yanggu”) and International Culture are engaged in providing online platforms that facilitate the e-commerce trading of artwork and collectables and the online trading of commodities, principally teas. The Company’s headquarters were located in the City of Nanjing, in the People’s Republic of China (the “PRC” or “China”). All of the Company’s business activities are carried out by Oriental Culture HK, Jiangsu Yanggu and Jiangsu Yanggu’s subsidiaries.

On May 8, 2019, Oriental Culture completed its reorganization of entities under common control of various shareholders, who collectively owned 100% of the equity interests of Oriental Culture prior to the reorganization. Oriental Culture, Oriental Culture BVI, and Oriental Culture HK, were established as the holding companies of Oriental Culture WFOE. Oriental Culture WFOE is the primary beneficiary of Jiangsu Yanggu and its subsidiaries. Prior to the reorganization, Jiangsu Yanggu and International Culture were under common control, as the same group of shareholders held more than 50% of the voting ownership interest of each entity, and contemporaneous written evidence of agreements to vote a majority of the entities’ shares in concert exists. Oriental Culture, International Culture and Jiangsu Yanggu were under common control, which resulted in the consolidation of International Culture and Jiangsu Yanggu, which was accounted for as a reorganization of entities under common control at their carrying values. The financial statements are prepared on the basis as if the reorganization became effective as of the beginning of the first period presented in the accompanying consolidated financial statements of Oriental Culture.

On May 9, 2019, the Company acquired all outstanding equity interest of HKDAEx Limited (“HKDAEx”), which provides the Company’s customers with an additional online trading platform in Hong Kong. Therefore, starting in second half of 2019, the Company expanded its business operations to include online trading of certain commodities, primarily teas on the platform of HKDAEx.

#### **Contractual Arrangements**

In the PRC, investment activities by foreign investors are principally governed by the Special Administrative Measures (Negative List) for Foreign Investment Access which is updated from time to time by MOFCOM and NDRC. In June, 2020, the MOFCOM and the NDRC promulgated the Special Administrative Measures (Negative List) for Foreign Investment Access (2020 Version), or the Negative List, which became effective on July 23, 2020. On December 27, 2020, the Special Administrative Measures for foreign investment access (Negative List) (2021 version) was issued and became effective on January 1, 2022, replacing the Special Administrative Measures for foreign investment access (Negative List) (2020 version). The Negative List divides industries into two categories: restricted and prohibited. Industries not listed in the Negative List are generally open to foreign investment unless specifically restricted by other PRC regulations.

Oriental Culture is a Cayman Islands company and its subsidiaries including Oriental Culture WFOE is considered a foreign invested enterprise. Although the business the Company conducts through Jiangsu Yanggu is not within the category in which foreign investment is currently restricted or prohibited under the Negative List or other PRC Laws, the Company expects that in the future Jiangsu Yanggu will engage in marketing survey services for online marketplaces. Marketing survey services are within the category in which foreign investment is restricted pursuant to the Negative List. In addition, the Company intends to centralize the Company’s management and operations in the PRC to avoid being restricted to conduct certain business activities which are important for the Company’s current or future business but are currently restricted or might be restricted in the future. As such, Jiangsu Yanggu is controlled through contractual arrangements in lieu of direct equity ownership by the Company or any of its subsidiaries. Such contractual arrangements are comprised of a series of four agreements (collectively the “Contractual Arrangements”), of which the significant terms are as follows:

## ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Contractual Agreements with Jiangsu Yanggu

##### *Technical Consultation and Services Agreement*

Pursuant to the technical consultation and services agreement between Oriental Culture WFOE and Jiangsu Yanggu, Oriental Culture WFOE has the exclusive right to provide consultation and services to Jiangsu Yanggu in the areas of management, human resources, technology and intellectual property rights. For such services, Jiangsu Yanggu agrees to pay service fees of 100% of its net income to Oriental Culture WFOE and also Oriental Culture WFOE has the obligation to absorb 100% of the losses of Jiangsu Yanggu.

The WFOE exclusively owns any intellectual property rights arising from the performance of this Technical Consultation and Services Agreement. The term of the Technical Consultation and Service Agreement is 20 years until May 7, 2039. Oriental Culture WFOE may terminate this agreement at any time by giving 30 days' written notice to Jiangsu Yanggu.

##### *Equity Pledge Agreement*

Pursuant to the Equity Pledge Agreements among Oriental Culture WFOE, Jiangsu Yanggu and Jiangsu Yanggu's shareholders dated May 8, 2019, each of Jiangsu Yanggu's shareholders pledged all of their equity interests in Jiangsu Yanggu to Oriental Culture WFOE to guarantee Jiangsu Yanggu's performance of relevant obligations and indebtedness under the Technical Consultation and Services Agreement and other agreements. If Jiangsu Yanggu breaches its obligations under the Contractual Agreements, Oriental Culture WFOE, as pledgee, will be entitled to certain rights, including the right to dispose of the pledged equity interests in order to recover the damages associated with such breach. The pledge is valid until all of Jiangsu Yanggu's shareholders are no longer shareholders of Jiangsu Yanggu, or until the satisfaction of all Jiangsu Yanggu's obligations under the Contractual Agreements.

##### *Equity Option Agreement*

Pursuant to the Equity Option Agreement among Oriental Culture WFOE, Jiangsu Yanggu and Jiangsu Yanggu's shareholders dated May 8, 2019, Oriental Culture WFOE has the exclusive right to require Jiangsu Yanggu's shareholders to fulfill and complete all approval and registration procedures required under PRC laws for Oriental Culture WFOE to purchase, or designate one or more persons to purchase, each shareholders' equity interests in Jiangsu Yanggu, in one or multiple transactions, at any time or from time to time, at Oriental Culture WFOE's sole and absolute discretion. The purchase price shall be the lowest price allowed by PRC laws. The Equity Option Agreement shall remain effective until all the equity interests owned by Jiangsu Yanggu's shareholders have been legally transferred to Oriental Culture WFOE or its designee(s).

##### *Voting Rights Proxy and Financial Supporting Agreements*

Pursuant to the voting rights proxy and financial supporting agreements, as amended, among the shareholders of Jiangsu Yanggu and Oriental Culture WFOE, Jiangsu Yanggu's shareholders have given Oriental Culture WFOE an irrevocable proxy to act on their behalf on all matters pertaining to Jiangsu Yanggu and to exercise all of their rights as shareholders of Jiangsu Yanggu, including the right to attend shareholders meeting, to exercise voting rights and to transfer all or a part of their equity interests in Jiangsu Yanggu. In consideration of such granted rights, Oriental Culture WFOE agrees to provide the necessary financial support to Jiangsu Yanggu whether or not Jiangsu Yanggu incurs losses, and agrees not to request repayment if Jiangsu Yanggu is unable to do so. The agreements is in effect for 20 years until May 7, 2039.

Based on the foregoing contractual arrangements, which grant Oriental Culture WFOE effective control of Jiangsu Yanggu and its subsidiaries and obligates Oriental Culture WFOE to absorb 100% of the risk of loss from its activities, as well as enable Oriental Culture WFOE to receive 100% of the expected residual returns, the Company accounts for Jiangsu Yanggu and its subsidiaries as VIEs. Accordingly, the Company consolidates the accounts of Jiangsu Yanggu and its subsidiaries in accordance with Regulation S-X-3A-02 promulgated by the Securities Exchange Commission ("SEC"), and the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Section 810-10, Consolidation.

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On January 28, 2021, Oriental Culture WFOE entered into an Amended and Restated Equity Pledge Agreement, an Amended and Restated Equity Option Agreement, and an Amended and Restated Voting Rights Proxy and Financial Supporting Agreement (“Amended and Restated VIE Agreements”) with Jiangsu Yanggu and all shareholders of Jiangsu Yanggu in order to amend and restate the Equity Pledge Agreement, Equity Option Agreement, and Voting Rights Proxy and Financial Supporting Agreement originally entered by the parties in May, 2019 (“Original VIE Agreements”). The Amended and Restated VIE Agreements were made principally to reflect a change of the share ownership of Jiangsu Yanggu as a result of the transfer by Mr. Weipeng Liang of his 10% equity interest in Jiangsu Yanggu to Ms. Yuanyuan Xiao on January 28, 2021. Except for the change of the share ownership of Jiangsu Yanggu due to such equity transfer, there are no other changes to the terms of the Original VIE Agreements.

The accompanying consolidated financial statements reflect the activities of the Company and each of the following entities:

| <b>Name</b>  | <b>Background</b>   | <b>Ownership</b>                   |
|--|---|------------------------------------|
| China International Assets and Equity of Artworks Exchange Limited (“International Culture”) | <ul style="list-style-type: none"> <li>● A Hong Kong company</li> <li>● Incorporated on November 22, 2013, commenced operations in March 2018.</li> <li>● Engages in providing an online platform that facilitates e-commerce of collectible and artwork trading</li> </ul> | 100%                               |
| HKDAEx Limited (“HKDAEx”)  | <ul style="list-style-type: none"> <li>● A Hong Kong company</li> <li>● Incorporated on April 18, 2018</li> <li>● Engages in providing an online platform that facilitates e-commerce of certain commodities trading</li> </ul>   | 100%                               |
| Oriental Culture BVI   | <ul style="list-style-type: none"> <li>● A British Virgin Islands company</li> <li>● Incorporated on December 6, 2018</li> </ul>  | 100%                               |
| Oriental Culture HK  | <ul style="list-style-type: none"> <li>● A Hong Kong company</li> <li>● Incorporated on January 3, 2019</li> </ul>  | 100% owned by Oriental Culture BVI |
| Oriental Culture WFOE  | <ul style="list-style-type: none"> <li>● A PRC limited liability company and deemed a wholly foreign owned enterprise (“WFOE”)</li> <li>● Incorporated on May 7, 2019</li> </ul>  | 100% owned by Oriental Culture HK  |
| Jiangsu Yanggu   | <ul style="list-style-type: none"> <li>● A PRC limited liability company</li> <li>● Incorporated on August 23, 2017, commenced operations in March 2018.</li> <li>● Holding company of Nanjing Yanyu and Nanjing Yanqing</li> </ul>   | VIE of Oriental Culture WFOE       |
| Nanjing Yanyu Information Technology Co., Ltd. (“Nanjing Yanyu”)                             | <ul style="list-style-type: none"> <li>● A PRC limited liability company</li> <li>● Incorporated on June 7, 2018</li> <li>● Provides support services to Jiangsu Yanggu, International Culture, HKDAEx, Kashi Longrui and Kashi Dongfang</li> </ul>                         | 100% owned by Jiangsu Yanggu       |
| Nanjing Yanqing Information Technology Co., Ltd. (“Nanjing Yanqing”)                         | <ul style="list-style-type: none"> <li>● A PRC limited liability company</li> <li>● Incorporated on May 17, 2018</li> <li>● Holding company of Kashi Longrui and Kashi Dongfang</li> </ul>  | 100% owned by Jiangsu Yanggu       |
| Kashi Longrui Business Management Service Co., Ltd. (“Kashi Longrui”)                        | <ul style="list-style-type: none"> <li>● A PRC limited liability company</li> <li>● Incorporated on July 19, 2018</li> <li>● Operating entity provides marketing services</li> </ul>  | 100% owned by Nanjing Yanqing      |
| Kashi Dongfang Cangpin Culture Development Co., Ltd. (“Kashi Dongfang”)                      | <ul style="list-style-type: none"> <li>● A PRC limited liability company</li> <li>● Incorporated on August 29, 2018</li> </ul>  | 100% owned by Nanjing Yanqing      |

- Operating entity provides listing and warehouse services



**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 – Summary of significant accounting policies**

Basis of presentation

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

Principles of consolidation

The consolidated financial statements include the accounts of the Company, its subsidiaries, and their VIEs. All intercompany transactions and balances are eliminated in consolidation.

Recapitalization

On November 8, 2019, the Company effected a 2 for 1 forward share split of all issued and outstanding ordinary shares of the Company. In addition, all existing shareholders agreed to surrender to the Company as treasury shares, 12.5% of the then outstanding ordinary shares (3,100,000 ordinary shares) for no consideration. On May 28, 2020, all existing shareholders of the Company agreed to surrender 6,510,000 ordinary shares, or 30% of our then outstanding ordinary shares, at no consideration to be reserved as treasury shares of the Company. These transactions were treated as a recapitalization prior to the Company’s initial public offering. All share and per share amounts were retroactively adjusted for this recapitalization for all periods presented.

Use of estimates and assumptions

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 revenue recognition, allowance for doubtful accounts, the useful lives of property and equipment and intangible assets and impairment of long-lived assets. Actual results could differ from these estimates.

Foreign currency translation and transactions

The reporting currency of the Company is the U.S. dollar. The functional currency for our holding company is the U.S. dollar. In the PRC, the Company conducts its businesses in the local currency, Renminbi (RMB), as its functional currency. Assets and liabilities are translated at the unified exchange rate as quoted by the People’s Bank of China at the end of the period. In Hong Kong, the Company conducts its business in the local currency, Hong Kong dollar (HKD), as its functional currency. Assets and liabilities are translated at the unified exchange rate as quoted by the Federal Reserve at the end of the period. The statements of income and cash flows are translated at the average translation rates during the reporting periods and the equity accounts are translated at historical rates. Translation adjustments resulting from this process are included in accumulated other comprehensive income (loss). Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

## ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Translation adjustments are included in accumulated other comprehensive income. The balance sheet amounts, with the exception of shareholder's equity at December 31, 2022 and December 31, 2021 were translated at RMB 6.96 and RMB 6.38 to one U.S. dollar (USD), respectively. The average translation rates applied to the consolidated statements of income and cash flows for years ended December 31, 2022, 2021 and 2020 were RMB 6.73, RMB 6.45 and RMB 6.90 to one USD. The balance sheet amounts, with the exception of shareholder's equity at December 31, 2022 and 2021 were translated at HKD 7.80 and HKD 7.80 to one USD, respectively. The average translation rates applied to the consolidated statements of income and cash flows for years ended December 31, 2022, 2021 and 2020 were HKD 7.83, HKD 7.77 and HKD 7.76 to one USD, respectively. The shareholder's equity accounts were translated at their historical rates. Amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

#### Fair value measurement

The accounting standards regarding fair value of financial instruments and related fair value measurements defines financial instruments and requires disclosure of the fair value of financial instruments held by the Company.

The accounting standards define fair value, establish a three-level valuation hierarchy for disclosures of fair value measurements and enhance disclosure requirements for fair value measures. The three levels are defined 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, other than those included in Level 1, for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

The carrying amounts included in current assets and current liabilities in the consolidated balance sheets approximate their fair values because of the short-term nature of such instruments.

Fair value disclosure:

|                                    | December 31, 2022 |         |              |         |
|------------------------------------|-------------------|---------|--------------|---------|
|                                    | Fair Value        |         |              |         |
|                                    | Cost              | Level 1 | Level 2      | Level 3 |
| Short-term investment (Restricted) | \$ 4,703,323      | \$ -    | \$ 4,703,323 | \$ -    |

|                       | December 31, 2021 |         |              |         |
|-----------------------|-------------------|---------|--------------|---------|
|                       | Fair Value        |         |              |         |
|                       | Cost              | Level 1 | Level 2      | Level 3 |
| Short-term investment | \$ 3,748,900      | \$ -    | \$ 3,748,900 | \$ -    |

The Company values its short-term investment using alternative pricing sources and market observable inputs, and accordingly the Company classifies the valuation techniques that use these inputs as Level 2. This investment has original maturities of less than 1 year and the carrying value approximates its fair value.

#### Cash and equivalents

Cash and equivalents consist of cash in bank and money market funds which are unrestricted as to immediate withdrawal and use.

#### Restricted cash

On July 1, 2022, Mr. Huajun Gao and Mr. Aiming Kong, each an 11.5% shareholder of Oriental Culture Holding LTD (the "Company"), were detained by Nan County Public Safety Bureau of Yiyang City, Hunan Province, China. On July 26, 2022, Nan County People's Procuratorate approved the arrest of Mr. Gao and Mr. Kong with a charge of illegal business operation of Nanjing Jinwang Art Purchase E-commerce Co., Ltd., a company controlled by Mr. Gao and Mr. Kong ("Nanjing Jinwang"). On July 1, 2022, Nan County Public Safety Bureau froze certain bank accounts of Kashi Longrui Business Management Services Co., Ltd. ("Kashi Longrui"), Kashi Dongfang Cangpin Culture Development Co., Ltd. ("Kashi Dongfang") and Nanjing Yanyu Information Technology Co., Ltd. ("Nanjing Yanyu"), all subsidiaries of Jiangsu Yanggu Culture Development Co., Ltd., the variable interest entity of the Company in China (the "VIE") because they, each had business relationship with Nanjing Jinwang. The total restricted cash was \$11,796,388 as of December 31, 2022.

## ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Short-term investments

The short-term investment is an investment in a bank-issued wealth management product with underlying investments in cash, bonds and equity funds. The investment products are issued by Ping An Bank. The investments have a maturity of less than 1 year and their carrying value approximates their fair value. The gain from sale of these investments is recognized in the statements of income and comprehensive income. Earnings from these investments for the years ended December 31, 2022, 2021 and 2020 was \$156,066, \$169,065 and \$93,007, respectively. Due to the issue mentioned in Restricted cash, all short-term investments were \$4,703,323 as of December 31, 2022 was restricted.

#### Accounts receivable, net (including related parties)

Accounts receivable is amounts due from the Company's customers. An allowance for doubtful accounts may be established and recorded based on management's assessment of potential losses based on the credit history and relationships with the customers. Management reviews its receivables on a regular basis to determine if the allowance for doubtful accounts is adequate and adjusts the allowance when necessary. Delinquent account balances are written-off against the allowance for doubtful accounts after management has determined that the likelihood of collection is not probable.

#### Other receivables and prepaid expenses

Other receivables that are short term include employee advances, such as travel advance, advance to purchase office supplies in the normal course of business and certain short-term deposits. An allowance for doubtful accounts may be established and recorded based on management's assessment of the likelihood of realization or collection. Management reviews these items on a regular basis to determine if the allowance for doubtful accounts is adequate, and adjusts the allowance when necessary. Delinquent account balances are written-off against the allowance for doubtful accounts after management has determined that the likelihood of realization or collection is not probable. No allowance was required as of December 31, 2022 or 2021.

Prepaid expenses include advance payments made to vendors for certain prepaid services such as system service fees, prepaid rent for our office (with lease under one year) and prepaid taxes.

#### Other receivables – related party

Other receivables – related party consist of funds which are held on a trading platform trust account with Nanjing Jinwang Art Purchase E-commerce Co., Ltd., which is owned by Huajun Gao and Aimin Kong, each is an 11.5% beneficial owners of the Company. The funds are not restricted and can be withdrawn and used after the Company completes the necessary administrative procedures. The Company normally makes withdrawals from this account monthly. The outstanding balance was paid back to the Company in April 2023.

#### Escrow

In connection with the Company's initial public offering in December 2020, \$600,000 of the net proceeds was deposited into an escrow account as security for the underwriters for 24 months from the closing of the offering to cover any potential claims related to the offering. The full amount of \$600,000 was released to the Company in January 2023.

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Deposit

The Company entered into a memorandum of understanding (“MOU”) to acquire office buildings and the related land use rights in November 2020 with a third-party seller. The close of the transaction was dependent on the seller obtaining a permit regarding the proposed use of the site. Subsequent to December 31, 2020, the Company terminated the MOU as the seller was unable to obtain the required permit and the Company received a full refund of the deposit (see Note 5).

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets with no residual value. The estimated useful lives are as follows:

|                                  | <b>Useful Life</b>                              |
|----------------------------------|---|
| Office equipment and furnishings | 1 - 5 years                                     |
| Electronic equipment             | 2 - 5 years                                     |
| Server room equipment            | 5 years   |
| Vehicles                         | 5 years   |
| Office building                  | 35 years  |
| Leasehold improvements           | lesser of lease term or<br>expected useful life |

The cost and related accumulated depreciation and amortization of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the consolidated statements of income and other comprehensive income. Expenditures for maintenance and repairs are expensed as incurred, while additions, renewals and betterments, which are expected to extend the useful life of an asset, are capitalized. The Company also re-evaluates the periods of depreciation and amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives.

Construction-in-progress represents material, contractor and labor costs, design fees and inspection fees in connection with the construction of the Company’s office building in Jiangsu, China. See Note 7 for details.

Intangible assets, net

Intangible assets, net, are stated at cost, less accumulated amortization. Amortization expense is recognized on the straight-line basis over the estimated useful lives of the assets as follows:

| <b>Classification</b>                    | <b>Estimated Useful Life</b> |
|--|------------------------------|
| Artwork and collectible trading platform | 5 years                      |
| Software                                 | 5 years                      |

Impairment for long-lived assets

Long-lived assets, including property and equipment with finite lives are reviewed for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying value of an asset may not be recoverable. The Company assesses the recoverability of the asset based on the undiscounted future cash flows the asset is expected to generate and recognize an impairment loss when estimated discounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. If an impairment is identified, the Company reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. For the years ended December 31, 2022, 2021 and 2020, the Company recorded nil, \$25,590 and nil of impairment loss digital assets.

## ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Investments

Entities in which the Company has the ability to exercise significant influence, but does not have a controlling interest, are accounted for using the equity method. Significant influence is generally considered to exist when the Company has voting shares of 20% to 50%, and other factors, such as representation on the board of directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. Under this method of accounting, the Company records its proportionate share of the net earnings or losses of equity method investees and a corresponding increase or decrease to the investment balances. Dividends received from the equity method investments are recorded as reductions in the cost of such investments. The Company generally considers an ownership interest of 20% or higher to represent significant influence. The Company accounts for the investments in entities over which it has neither control nor significant influence, and no readily determinable fair value is available, using the investment cost minus any impairment, if necessary. The Company's investment of 18% ownership of Zhongcang Warehouse Co., Ltd. was \$501,802 and \$548,151 as of December 31, 2022 and 2021, respectively, and is accounted for using the cost method.

In March 2022, the Company's VIE Jiangsu Yanggu entered into an equity subscription agreement to purchase 11.875% equity interest of Beijing Jiu Yu Ling Jing Technology Co., Ltd. ("JYLJ"), a company incorporated in the PRC, which primarily engages in wine and alcohol product merchants and customers, as well as product launch, brand showcase, marketing and promotion and it is currently in the process of developing a "Wine and Spirits" metaverse, and the amount raised through increase of share capital will be mainly used for this development. JYLJ's total registered capital is RMB 60 million (approximately USD 9.2 million). Jiangsu Yanggu's subscription amount is RMB 6 million and RMB 3 million was paid in March 2022. The remaining RMB 3 million is to be paid upon further resolution from the board of JYLJ. As of December 31, 2022, the Company's investment in YLJ was \$430,750, and is accounted for using the cost method.

Investments are evaluated for impairment when facts or circumstances indicate that the fair value of the long-term investment is less than its carrying value. An impairment loss is recognized when a decline in fair value is determined to be other-than-temporary. The Company reviews several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to, the: (i) nature of the investment; (ii) cause and duration of the impairment; (iii) extent to which fair value is less than cost; (iv) financial condition and near term prospects of the investment; and (v) ability to hold the security for a period of time sufficient to allow for any anticipated in fair value. No events have occurred that indicated a decline in fair value that is other-than-temporary for the years ended December 31, 2022 and 2021.

#### Certificate of deposits

The Company has a certificate of deposit with a bank which expires on May 20, 2023 with interest of 3.575%. The Company is subject to an early withdrawal penalty if redeemed before maturity. Interest income was approximately \$106,302, \$58,000 and nil for the year ended December 31, 2022, 2021 and 2020. As of December 31, 2022, the deposit is less than one year and is reclassified to restricted investment on the Company's consolidated balance sheet as it was also restricted per the investigation related to the Company's related party.

#### Deferred revenue

Payments received from customers before all the relevant criteria for revenue recognition are recorded as deferred revenue.

|                          | <u>December 31,</u><br><u>2022</u> | <u>December 31,</u><br><u>2021</u> |
|--------------------------|------------------------------------|------------------------------------|
| Beginning balance        | \$ 697,863                         | \$ 243,355                         |
| Customer advances        | 16,803,450                         | 36,991,645                         |
| Recognized as revenues   | (16,993,268)                       | (36,542,832)                       |
| Effect of exchange rates | (59,008)                           | 5,695                              |
| Ending balance           | <u>\$ 449,037</u>                  | <u>\$ 697,863</u>                  |

#### Revenue recognition

The Company follows FASB ASC 606, Revenue from Contracts with Customers, for recognizing its revenue. The core principle underlying the revenue recognition standard is that the Company will recognize revenue to represent the transfer of services to customers in an amount that reflects the consideration to which the Company expects to be entitled in such exchange. This requires the Company to identify contractual performance obligations and determine whether revenue should be recognized when control of services transfers to a customer. Under the guidance of ASC 606, the Company is required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract and (e) recognize revenue when (or as) the Company satisfies its performance obligation. Revenues are recorded, net of sales related taxes and surcharges.

The Company continues to derive its revenues from service contracts with its customers with revenues being recognized upon performance of services. Persuasive evidence of an arrangement is demonstrated via service contracts and invoices; and the consideration to the customer is fixed upon acceptance of the sales contract. At times, the Company offers incentives and rebates to its customers directly and the Company accounts for these incentives payable to customers as a reduction of the contract price.

## ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's revenues are recognized when all performance obligations are satisfied. The Company's commission expenses to its sales agents are expensed when incurred.

The Company is an online provider of collectibles and artwork e-commerce services, which allows artists and art dealers and owners to access the art trading market with a wider range of artwork investors through the Company's platforms. The Company currently facilitates trading by individual and institutional customers of artwork, collectibles and commodities on the Company's online platforms. In addition to collectibles and artwork, the Company has also expanded its platform to trade commodities principally teas.

The Company generates revenue from its services in connection with the trading of artwork and commodities on its platforms, primarily consisting of listing service fees, transaction fees, marketing services fees and other revenues collected from traders (the Company's customers).

The Company has cooperative agreements with third parties who are experts and possess new ideas and resources for collectibles/commodities business to co-develop certain niche markets (such as vintage coins and teas) to be traded on the Company's online platforms. These parties are required to place a security deposits with the Company until termination of the cooperative agreements and deposit amounts will need to increase as the trading volume increases. Revenue generated from these niche markets will be shared between the Company and these parties based on pre-agreed rates and trading volume. The Company accounts for the portion of revenue that needs to be reimbursed to the third parties as a reduction of total contract revenue to be received from customers. Approximately nil, \$119,000 and \$62,000 has been recorded as a reduction of revenue and payables to these parties for the years ended December 31, 2022, 2021 and 2020, respectively.

#### *Listing service fees*

One-time nonrefundable listing service fees are collected from owners and traders for listing their products on the platform. The Company's only performance obligation is to provide the listing on the Company's platform over the period requested. The Company recognizes the related revenue upon the completion of its performance obligations. The fees are determined by contracts with the customers as a fixed percentage of the listing price.

#### *Transaction fee revenue*

Transaction fee revenue is generally calculated based on the transaction value of collectibles, artwork and commodities per transaction. Transaction value is the dollar amount of the purchase or sale of the collectibles, artwork and commodities after they are listed on the Company's platforms. The Company's performance obligation is to facilitate the trading transactions. Transaction fee revenue is recognized and collected at the point-in-time when the transaction is completed. Transaction fee revenue also includes predetermined monthly transaction fees for select traders with large transactions and are negotiated on a case-by-case basis. Predetermined transaction fees are recognized and earned over the specified service period.

In 2018, the Company started a customer reward points program, pursuant to which reward points were issued for opening a new account or referring customers to open accounts with us during our promotion period. In that regard, customers are required to redeem certain reward points for new listings along with the regular listing services fees. If a customer does not have any reward points, he/she can purchase them from other customers on our platform. The Company does not record revenue when customers redeem any points as it is considered as a prerequisite for a new listing in addition to the regular services fees. The points are traded by and among our customers on the platform and the Company charges a transaction fee from such points trading. The Company assessed if a material right existed when the Company initially issued the reward points and if the points represent a separate performance obligation. In general, the points were given to customers based on existing accounts or promotions without the customers having to acquire services from the Company, therefore there was no material right and no separate performance obligation exists. There is no liability for unredeemed awards. Transaction fee revenue from the trading of reward points amounted to approximately \$1.1 million, \$3.4 million and \$2.6 million for the years ended December 31, 2022, 2021 and 2020, respectively.

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Predetermined transaction fees received in advance of the specified service period are recorded as deferred revenue.

*Marketing service fees*

Marketing service fees are usually collected after the Company completes its services and includes the following type of services:

- (1) For certain marketing service agreements, the Company promises to assist its customer in connection with his/her listing and trading of his/her collectible/artwork or commodities on the Company's platforms, which mainly includes consultation and supporting services of the marketability for the collectible/artwork; assessing its market value and market acceptance for the collectible/artwork or commodities; and assisting in the application and legal protection required for the customer's collectible/artwork or commodities to be approved for listing on the Company's platforms. For marketing service contracts in which the related performance obligations can be completed within a short period of time, the Company recognizes the related revenue upon the completion of its performance obligations.
- (2) Marketing service agreements also includes providing promotional services for customers' items as where to place ads on well-known cultural and art exchange websites in China, to provide online and offline marketing services including cooperation with auction houses and participate in industry-related exhibitions and fairs.

The marketing service fees are charged based on the type of listing session that the customer applies for and whether the customer has listed and sold collectibles on other platforms before, and they are not tied to the type or value of the underlying collectible/artwork. Marketing service contracts and fees are recognized upon the completion of the performance obligation.

*Other revenues*

Other revenues (including related parties of \$166,325, \$233,157 and \$213,172 for the years ended December 31, 2022, 2021 and 2020, respectively) primarily includes service fees for IT technical support to customers and other revenues from agency recommendation fees. IT technical support fees are negotiated on a case by case basis and are recognized when the related services have been performed based on the specific terms of the contract. Agency recommendation fees are mainly training and consulting services provided to certain traders/agents for them to be qualified. Upon completion of the training and consultation, these qualified traders/agents may introduce the Company's platform and services to potential customers to list their collectibles and artwork with the Company for a fee or promote their own products on the Company's platforms. The Company's performance obligation is completed and revenue is recognized upon completion of training and consultation services.

The Company disaggregated its revenue into the following four categories:

|                        | Years Ended<br>December 31, |                      |                      |
|------------------------|-----------------------------|----------------------|----------------------|
|                        | 2022                        | 2021                 | 2020                 |
| Listing service fees   | \$ 1,244,251                | \$ 6,900,561         | 8,405,211            |
| Transaction fees       | 13,643,958                  | 24,462,861           | 7,075,283            |
| Marketing service fees | 2,749,224                   | 5,750,901            | 1,370,164            |
| Other revenues*        | 175,706                     | 482,137              | 588,144              |
| Total                  | <u>\$ 17,813,139</u>        | <u>\$ 37,596,460</u> | <u>\$ 17,438,802</u> |

\* Including \$166,325, \$233,157 and \$213,172 for the years ended December 31, 2022, 2021 and 2020, respectively, from related parties.

## ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Cost of revenues

Cost of revenues consist of compensation including social welfare and benefits for the Company's IT, risk management and customer services team, appraisal fees, online cloud service fees, storage fees paid to related party, and depreciation and amortization of hardware and software for the Company's trading platforms.

#### Selling and marketing expenses:

Selling and marketing expenses includes salary and benefits for our employees in the sales and marketing department and marketing and advertising expenses. Selling expenses also include incentive payments to third parties that refer new traders to utilize the Company's e-commerce trading platforms.

Website advertising expenses which are included in selling and marketing expenses to related party were \$43,590, \$359,968 and \$1,762,652 for the years ended December 31, 2022, 2021 and 2020, respectively.

#### Value added taxes ("VAT")

Revenue is the invoiced value of services, net of VAT. The VAT is based on the gross sales price and VAT rates range up to 6%, depending on the type of services provided. Entities that are VAT general taxpayers are allowed to offset qualified input VAT paid to suppliers against their output VAT liabilities. The net VAT balance between input VAT and output VAT is recorded in taxes payable or other receivables and prepaid expenses. All VAT returns filed by the Company's subsidiary, VIE and its subsidiaries in China, have been and remain subject to examination by the tax authorities for five years from the date of filing.

#### Income taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740, "Income Taxes." Under the asset and liability method as required by this accounting standard, deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consists of taxes currently due plus deferred taxes.

The charge for taxation is based on the results for the fiscal year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxes are accounted for using the asset and liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of assessable tax. Deferred tax liabilities are recognized for all future taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized. Deferred tax is calculated using tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred taxes are charged or credited in the income statement, except when it is related to items credited or charged directly to equity. Net deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the net deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities.

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, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a greater than 50% likelihood 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 taxes are classified as income tax expense in the period incurred. PRC tax returns filed in 2021 are subject to examination by the applicable tax authorities. Tax returns filed in Hong Kong from 2018 to 2021 are subject to examination.



## ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Leases

The Company adopted FASB ASU 2016-02, "Leases" (Topic 842) for the year ended December 31, 2021, and elected the practical expedients that does not require us to reassess: (1) whether any expired or existing contracts are, or contain, leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. For lease terms of twelve months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. The Company also adopted the practical expedient that allows lessees to treat the lease and non-lease components of a lease as a single lease component. Upon adoption, the Company recognized \$34,608 of a right of use ("ROU") assets and same amount of lease liabilities based on the present value of the future minimum rental payments of leases, using an incremental borrowing rate of 4.75% based on the duration of lease terms.

Operating lease ROU assets and lease liabilities are recognized at the adoption date or the commencement date, whichever is earlier, based on the present value of lease payments over the lease term. Since the implicit rate for the Company's leases is not readily determinable, the Company used its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow, on a collateralized basis, an amount equal to the lease payments, in a similar economic environment and over a similar term.

Lease terms used to calculate the present value of lease payments generally do not include any options to extend, renew, or terminate the lease, as the Company does not have reasonable certainty at lease inception that these options will be exercised. The Company generally considers the economic life of its operating lease ROU assets to be comparable to the useful life of similar owned assets. The Company has elected the short-term lease exception, therefore operating lease ROU assets and liabilities do not include leases with a lease term of twelve months or less. Its leases generally do not provide a residual guarantee. The operating lease ROU asset also excludes lease incentives. Lease expense is recognized on a straight-line basis over the lease term.

The Company reviews for impairment of its ROU assets consistent with the approach applied for its other long-lived assets. The Company reviews the recoverability of its long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on its ability to recover the carrying value of the asset from the expected undiscounted future pre-tax cash flows of the related operations. The Company has elected to include the carrying amount of operating lease liabilities in any tested asset group and include the associated operating lease payments in the undiscounted future pre-tax cash flows.

#### Other Income, net

Other income includes government subsidies from Xinjiang Province of approximately \$240,000 to promote local business development of various industries, Kashi Dongfang qualified in establishing business in Kashi, there is no services required on Kashi Dongfang and no further commitment for the grant. Other income also includes VAT refund of approximately \$61,000. As part of VAT reform in 2019, a taxpayer in certain service industries was allowed to reclaim an additional 10% of input VAT credit against the amount of VAT payable from April 1, 2019 to December 31, 2022. Other income also includes approximately \$112,000 rental income that the Company subleased part of the office building in 2022. The net other income is approximately \$269,000, \$193,000 and \$169,000 for the years ended December 31, 2022, 2021 and 2020, respectively.

#### 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 factors and the specific facts and circumstances of each matter.

## ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Earnings per share (“EPS”)

Basic EPS are computed by dividing income available to shareholders of the Company by the weighted average ordinary shares outstanding during the period. Diluted EPS takes into account the potential dilution that could occur if securities or other contracts to issue ordinary shares (outstanding warrants) were exercised and converted into ordinary shares. For the years ended December 31, 2022, 2021 and 2020, there were no dilutive shares.

#### Statutory Reserves

Pursuant to the laws applicable to the PRC, PRC entities must make appropriations from after-tax profits to the non-distributable statutory surplus reserve fund. Subject to certain cumulative limits, the statutory surplus reserve fund requires annual appropriations of 10% of after-tax profit until the aggregated appropriations reach 50% of the registered capital (as determined under accounting principles generally accepted in the PRC (“PRC GAAP”)) at each year-end. If the Company has accumulated losses from prior periods, the Company is able to use the current period net income after tax to offset against the accumulated loss. For the years ended December 31, 2022, 2021 and 2020, the Company appropriated \$12,410, which is from Yanyu, \$0 and \$0 to the statutory reserve fund. The Company has met the required maximum contributions to the statutory reserves for both of its operating entities in China, Kashi Dongfang and Kashi Longrui.

#### Employee benefits

Full-time employees of the Company are entitled to staff welfare benefits including medical care, housing funds, pension benefits, unemployment insurance and other welfare benefits, which are government mandated defined contribution plans. The Company is required to accrue for these benefits based on certain percentages of the employees’ respective salaries, subject to certain ceilings, in accordance with the relevant PRC regulations, and make cash contributions to the state-sponsored plans. The expenses for the plans were \$124,856, \$105,565 and \$61,305, for the years ended December 31, 2022, 2021 and 2020, respectively.

#### Segments

FASB ASC 280, Segment Reporting, establishes standards for reporting information about operating segments on a basis consistent with the Company’s internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for details on the Company’s business segments.

The Company uses the management approach to determine reportable operating segments. The management approach considers the internal organization and reporting used by the Company’s chief operating decision maker (“CODM”) for making decisions, allocating resources and assessing performance. The Company’s CODM has been identified as the Chief Executive Officer of the Company, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Company.

Based on management’s assessment, the Company determined that it has only one operating segment and therefore one reportable segment as defined by ASC 280, which is facilitating e-commerce of artwork/collectables trading. All of the Company’s net revenues were generated in the PRC and Hong Kong.

## ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Recently issued accounting pronouncements

In May 2019, the FASB issued ASU 2019-05, which is an update to ASU Update No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing the previous incurred loss methodology. The amendments in Update 2016-13 added Topic 326, Financial Instruments — Credit Losses, and made several consequential amendments to the Codification. Update 2016-13 also modified the accounting for available-for-sale debt securities, which must be individually assessed for credit losses when fair value is less than the amortized cost basis, in accordance with Subtopic 326-30, Financial Instruments — Credit Losses — Available-for-Sale Debt Securities. The amendments in this Update address those stakeholders' concerns by providing an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. For those entities, the targeted transition relief will increase comparability of financial statement information by providing an option to align measurement methodologies for similar financial assets. Furthermore, the targeted transition relief also may reduce the costs for some entities to comply with the amendments in Update 2016-13 while still providing financial statement users with decision-useful information. In November 2019, the FASB issued ASU No. 2019-10, which to update the effective date of ASU No. 2016-02 for private companies, not-for-profit organizations and certain smaller reporting companies applying for credit losses, leases, and hedging standard. The new effective date for these preparers is for fiscal years beginning after December 15, 2022. The adoption of this ASU is not expected to have a material effect on the Company's consolidated financial statements.

Except as mentioned above, the Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the Company's consolidated balance sheets, statements of income and comprehensive income and statements of cash flows.

#### **Note 3 – Variable interest entity**

On May 8, 2019, Oriental Culture WFOE entered into Contractual Arrangements with Jiangsu Yanggu and its shareholders. The significant terms of these Contractual Arrangements are summarized in "Note 1 - Nature of business and organization" above. As a result, the Company classifies Jiangsu Yanggu and its subsidiaries as VIEs. Please also see Note 14 – Commitments and Contingencies for uncertainties of VIE.

A VIE is an entity that has either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest, such as through voting rights, right to receive the expected residual returns of the entity or obligation to absorb the expected losses of the entity. The variable interest holder, if any, that has a controlling financial interest in a VIE is deemed to be the primary beneficiary and must consolidate the VIE. Oriental Culture WFOE is deemed to have a controlling financial interest and is the primary beneficiary of Jiangsu Yanggu and its subsidiaries because it has both of the following characteristics:

- (1) The power to direct activities at Jiangsu Yanggu that most significantly impact such entity's economic performance; and
- (2) The obligation to absorb losses of, and the right to receive benefits from Jiangsu Yanggu that could potentially be significant to such entity.

Accordingly, the accounts of Jiangsu Yanggu and its subsidiaries are consolidated in the accompanying financial statements pursuant to ASC 810-10, Consolidation.

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On January 28, 2021, Oriental Culture WFOE entered into an Amended and Restated Equity Pledge Agreement, an Amended and Restated Equity Option Agreement, and an Amended and Restated Voting Rights Proxy and Financial Supporting Agreement (“Amended and Restated VIE Agreements”) with Jiangsu Yanggu and all shareholders of Jiangsu Yanggu in order to amend and restate the Equity Pledge Agreement, Equity Option Agreement, and Voting Rights Proxy and Financial Supporting Agreement originally entered by the parties in May, 2019 (“Original VIE Agreements”). The Amended and Restated VIE Agreements were made principally to reflect a change of the share ownership of Jiangsu Yanggu as a result of the transfer by Mr. Weipeng Liang of his 10% equity interest in Jiangsu Yanggu to Ms. Yuanyuan Xiao on January 28, 2021. Except for the change of the share ownership of Jiangsu Yanggu due to such equity transfer, there are no other changes to the terms of the Original VIE Agreements.

The carrying amounts of the VIEs’ consolidated assets and liabilities are as follows:

|  | <u>December 31,<br/>2022</u> | <u>December 31,<br/>2021</u> |
|--|------------------------------|------------------------------|
| Current asset:                         |                              |                              |
| Property and equipment, net            | \$ 34,200,319                | \$ 26,650,671                |
| Other noncurrent assets                | 9,417,777                    | 9,890,566                    |
| Total assets                           | <u>1,049,683</u>             | <u>3,801,822</u>             |
| Total liabilities                      | 44,667,779                   | 40,343,059                   |
| Total net assets                       | <u>(4,047,943)</u>           | <u>(3,687,973)</u>           |
|  | <u>\$ 40,619,836</u>         | <u>\$ 36,655,086</u>         |
|  |                              |                              |
|  | <u>December 31,<br/>2022</u> | <u>December 31,<br/>2021</u> |
| Current liabilities:                   |                              |                              |
| Accounts payable                       | \$ 2,889,312                 | \$ 1,483,827                 |
| Accounts payable – related parties     | 28,727                       | 1,665                        |
| Deferred revenue                       | 449,037                      | 697,863                      |
| Other payables and accrued liabilities | 667,495                      | 1,474,792                    |
| Taxes payable                          | 13,372                       | 29,826                       |
| Total liabilities                      | <u>\$ 4,047,943</u>          | <u>\$ 3,687,973</u>          |

The summarized operating results of the VIEs are as follows:

|                        | <u>Years Ended<br/>December 31,</u> |                      |                     |
|------------------------|-------------------------------------|----------------------|---------------------|
|                        | <u>2022</u>                         | <u>2021</u>          | <u>2020</u>         |
| Operating revenues     | \$ 17,813,254                       | \$ 37,596,460        | \$ 17,438,918       |
| Income from operations | \$ 6,728,516                        | \$ 15,203,703        | \$ 6,793,583        |
| Net income             | <u>\$ 7,314,651</u>                 | <u>\$ 15,762,806</u> | <u>\$ 6,948,599</u> |

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4 – Accounts receivables, net**

The Company's net accounts receivable are as follows:

|                                       | <b>December 31,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|---------------------------------------|------------------------------|------------------------------|
| Trade accounts receivable             | \$ 43,282                    | \$ 156,852                   |
| Less: allowance for doubtful accounts | (43,075)                     | (109,792)                    |
| Accounts receivable, net              | <u>\$ 207</u>                | <u>\$ 47,060</u>             |

**Note 5 – Other receivables and prepaid expenses**

Other receivables consist of the following:

|  | <b>December 31,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|--|------------------------------|------------------------------|
| Rent and other deposits                      | \$ 16,296                    | \$ 14,716                    |
| Advance to third parties*                    | 2,799,874                    | -                            |
| Employee advances and others                 | 915,242                      | 8,095                        |
| Prepaid VAT taxes                            | 63,682                       | 226,206                      |
| Prepaid consulting fee                       | 646,852                      | 1,136,377                    |
| Total other receivables and prepaid expenses | <u>\$ 4,441,946</u>          | <u>\$ 1,385,394</u>          |

\* This advance was short term, non-interest bearing and due on demand. The Company collected full amount of advance by March 22, 2023.

**Note 6 – Deposit**

On November 16, 2020, the Company entered into a memorandum of understanding (“MOU”) with a third-party to acquire approximately 39,000 square meters of office and warehouse space and related land use rights in Nanjing city to meet the Company’s growing need for office and warehouse space. The price per the MOU was RMB195 million (approximately \$29.6 million) with land use rights to expire on October 7, 2052. The current land use rights for such office and warehouse on site were for industrial use purposes and the seller agreed to apply for approval with the local government to change the use of rights from industrial to research and development before the parties would proceed further with the MOU. The Company was planning to use the property for its research and development center. The Company paid a deposit of RMB 65.0 million (approximately \$9.9 million) after signing the MOU. A second payment of RMB 22 million (approximately \$3.4 million) was made upon finalization of the research center development plan with the final payment to be paid when the permit is approved in six months and the research center is completed. The Company paid the deposit of RMB 87.0 million (approximately \$13.3 million) as of December 31, 2020. In March 2021, the Company was notified by the seller that the permit may not be obtained timely or at all. The Company terminated the MOU and the seller refunded RMB 87.0 million (approximately \$13.2 million) in 2021. There was no termination fee or penalty.

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 7 – Property and equipment, net**

Property and equipment consist of the following:

|                                     | <b>December 31,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|-------------------------------------|------------------------------|------------------------------|
| Office and electronic equipment     | \$ 328,305                   | \$ 355,937                   |
| Vehicle                             | 765,250                      | 744,581                      |
| Furniture and leasehold improvement | 31,285                       | 29,498                       |
| Office building                     | 8,457,598                    | 9,238,795                    |
| Construction in process             | 599,319                      | -                            |
| Less: accumulated depreciation      | (758,044)                    | (464,522)                    |
| <b>Total</b>                        | <b>\$ 9,423,713</b>          | <b>\$ 9,904,289</b>          |

The Company acquired an office building in Jiangsu, China on November 17, 2021, the total building is 6,840.41 square meter with 4 floors, which will be used for the Company's operations.

Construction in progress represent ongoing construction for the office building mentioned above. The construction was to install elevator, HVAC, electrical system and office construction for the third and fourth floor of the office building to get the office space ready for use. The construction is expected to be completed in August 2023. The first and second floor was already ready to use when the Company acquired the building. As such, depreciation expenses for the building for the year ended December 31, 2022 was recorded for the first and second floor of the building which was ready for use.

Depreciation expense for the years ended December 31, 2022, 2021 and 2020 was \$340,296, \$186,551 and \$122,409, respectively.

**Note 8 – Intangible assets, net**

Intangible assets consist of the following:

|   | <b>December 31,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|---|------------------------------|------------------------------|
| Artwork trading platform                      | \$ 797,568                   | \$ 793,310                   |
| Software                                      | 933,732                      | 902,313                      |
| Copyright                                     | -                            | -                            |
| Less: accumulated amortization and impairment | (914,415)                    | (575,602)                    |
| <b>Total</b>                                  | <b>\$ 816,885</b>            | <b>\$ 1,120,021</b>          |

Amortization expenses for the years ended December 31, 2022, 2021 and 2020 was \$333,135, \$212,672 and \$185,865 respectively.

The future amortization is as follows:

| <b>Twelve Months Ending December 31,</b> | <b>Estimated<br/>Amortization<br/>Expense</b> |
|--|---|
| 2023                                     | \$ 320,713                                    |
| 2024                                     | 196,955                                       |
| 2025                                     | 161,581                                       |
| 2026                                     | 136,099                                       |
| 2027                                     | 1,537   |
| <b>Total</b>                             | <b>\$ 816,885</b>                             |

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 9 – Other payables and accrued liabilities**

Other payables and accrued liabilities consist of the following:

|                            | <b>December 31,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|----------------------------|------------------------------|------------------------------|
| Security deposits payable* | \$ 157,961                   | \$ 172,552                   |
| Salary payable**           | 97,052                       | 884,825                      |
| Others                     | 35,137                       | 226,858                      |
| Total                      | \$ 290,150                   | \$ 1,284,235                 |

\* The Company signed cooperation agreements with third parties to co-develop a niche market for its online platforms. The Company provides its platforms and users to promote products provided by the third party developers. Revenue generated from the niche markets will be shared between the Company and these parties. These third-party developers also guarantee certain sales volume yearly and the security deposit will be paid to the Company to make up for the sales target shortfalls at the end of the year. Any remaining security deposits will be returned to these parties upon dissolution of the cooperation agreements. The Company returned approximately nil and recognized approximately nil of deposits for target shortfalls as revenue for the years ended December 31, 2022. The Company returned approximately \$314,000 and recognized approximately \$119,000 of deposits for target shortfalls as revenue for the year ended December 31, 2021. No deposit were returned and no revenue was recognized for the year ended December 31, 2020.

\*\* During the years ended December 31, 2022, 2021 and 2020, the Company accrued bonuses payable of approximately \$40,203, \$789,325 and \$256,000, respectively.

**Note 10 – Taxes**

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. Additionally, upon payment of dividends to the shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, Oriental Culture HK established in Hong Kong is subject to a 16.5% income tax on taxable income generated from operations in Hong Kong. Payments of dividends from Oriental Culture HK to us are not subject to any Hong Kong withholding tax. The Company did not generate any revenue from operations in Hong Kong since its inception through December 31, 2022, and therefore is not subject to any income taxes in Hong Kong.

PRC

The WFOE and VIEs incorporated in the PRC are governed by the income tax laws of the PRC and the income tax provisions in respect to operations in the PRC is calculated at the applicable tax rates on the taxable income for the periods based on existing legislation, interpretations and practices in respect thereof. Under the Enterprise Income Tax Laws of the PRC (the “EIT Laws”), 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 exemptions may be granted on case-by-case basis.

Under the current EIT Law, dividends paid by an FIE to any of its foreign non-resident enterprise investors are subject to a 10% withholding tax. Thus, dividends, if and when payable by the Company’s PRC subsidiaries to their offshore parent entities, would be subject to a 10% withholding tax. A lower tax rate will be applied if such foreign non-resident enterprise investor’s jurisdiction of incorporation has signed a tax treaty or arrangement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income with China. There is such a tax arrangement between the PRC and Hong Kong. Thus, the dividends, if and when payable by the Company’s WFOE to the offshore parent entity located in Hong Kong, would be subject to a 5% withholding tax rather than the statutory rate of 10% provided that the offshore entity located in Hong Kong meets the requirements stipulated by relevant PRC tax regulations. The Company has not provided for deferred income tax liabilities on the WFOE’s undistributed earnings of \$42,087,930 and \$34,785,070 as of December 31, 2022 and 2021, respectively, because the Company controls the timing of the undistributed earnings and it is probable that such earnings will not be distributed. The Company plans to reinvest those earnings in the PRC operations for the foreseeable future.

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Moreover, the current EIT Law treats enterprises established outside of China with “effective management and control” located in China as PRC resident enterprises for tax purposes. The term “effective management and control” is generally defined as exercising overall management and control over the business, personnel, accounting, properties, etc. of an enterprise. The Company, if considered a PRC resident enterprise for tax purposes, would be subject to the PRC Enterprise Income Tax at the rate of 25% on its worldwide income for the period after January 1, 2008 if the only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in China; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in China; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in China; and (iv) at least 50% of voting board members or senior executives habitually reside in China. Based upon a review of surrounding facts and circumstances, the Company does not believe its subsidiaries outside of China is a PRC resident enterprise for PRC tax purposes because the rule only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like us, and therefore was not subject to PRC taxes.

Kashi Longrui and Kashi Dongfang were formed and registered in Kashi in Xinjiang Province, China in 2018. These companies have received an exemption and will not be subject to income tax for 5 years, which was expired on December 31, 2022. As of December 31, 2022 and 2021, the Company has not recorded any deferred tax liabilities in light of (1) its tax free arrangement; (2) its compliance with PRC EIT Law in making payments of enterprise income tax; and (3) Jiangsu Yanggu’s inability to pay its net profits to WFOE under the VIE agreement without the Company’s determination. However, any changes with the current effective PRC Tax laws and regulations could result in the Company paying more enterprise income tax, which would materially and adversely affect the operating and financial performance of the Company.

Tax savings for the years ended December 31, 2022, 2021 and 2020 amounted to approximately \$1,933,000, \$4,198,000 and \$2,427,000, respectively. The Company’s basic and diluted earnings per share would have been lower by \$0.50, \$0.20 and \$0.16 per share for the years ended December 31, 2022, 2021 and 2020, respectively, without the preferential tax exemption.

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

|   | <u>December 31,<br/>2022</u> | <u>December 31,<br/>2021</u> |
|---|------------------------------|------------------------------|
| China income tax rate                     | 25.0%                        | 25.0%                        |
| Tax exemption/preferential rate reduction | (21.1)%                      | (21.6)%                      |
| Change in valuation allowance             | (3.8)%                       | (3.4)%                       |
| Effective tax rate                        | <u>0.1%</u>                  | <u>-</u>                     |

Deferred tax assets - China

The following table summarizes the significant components of deferred tax assets.

|                                 | <u>December 31,<br/>2022</u> | <u>December 31,<br/>2021</u> |
|---------------------------------|------------------------------|------------------------------|
| Net operating losses            | \$ 961,468                   | \$ 820,610                   |
| Allowance for doubtful accounts | 10,769                       | 27,125                       |
| Less: valuation allowance       | (972,237)                    | (847,735)                    |
| Deferred tax assets, net        | <u>\$ -</u>                  | <u>\$ -</u>                  |

The following table summarizes the changes in valuation allowance for deferred tax assets.

|                   | <u>December 31,<br/>2022</u> | <u>December 31,<br/>2021</u> |
|-------------------|------------------------------|------------------------------|
| Beginning balance | \$ 847,735                   | \$ 452,009                   |
| Additions         | 124,502                      | 395,726                      |
| Ending balance    | <u>\$ 972,237</u>            | <u>\$ 847,735</u>            |



**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company evaluated the recoverable amounts of deferred tax assets, and provided a valuation allowance to the extent that future taxable profits will be available against which the net operating loss and temporary difference can be utilized. The Company considers both positive and negative factors when assessing the future realization of the deferred tax assets and applied weight to the relative impact of the evidence to the extent it could be objectively verified.

The Company's NOL was mainly from the Company's VIE and its subsidiaries' cumulative net operating losses ("NOL") of approximately \$4,521,000 and \$3,786,000 as of December 31, 2022 and 2021, and will start expiring in 2024. Management believes projected future losses outweighs other factors and made a full allowance of related deferred tax assets.

Taxes payable consist of the following:

|                     | <u>December 31,</u><br><u>2022</u> | <u>December 31,</u><br><u>2021</u> |
|---------------------|------------------------------------|------------------------------------|
| VAT payable         | \$ 6,858                           | \$ 27,077                          |
| Other taxes payable | 6,514                              | 2,749                              |
| <b>Total</b>        | <b>\$ 13,372</b>                   | <b>\$ 29,826</b>                   |

**Note 11 – Concentration of credit risk**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and equivalents. A depositor has up to RMB 500,000 (approximately \$72,000) insured by the People's Bank of China Financial Stability Bureau ("FSD"). As of December 31, 2022 and 2021, approximately \$37,574,000 and \$25,572,000 was deposited in a bank located in the PRC was not insured by FSD. As of December 31, 2022 and 2021, approximately \$3,421,345 and \$928,913 was deposited on our trading platform trust account located in the PRC. The account is held at Ping An Bank and entrusted with Nanjing Jinwang Art Purchase E-commerce Co., Ltd., our related party. This balance is not covered by insurance. While management believes that these financial institutions and platform fund holder are of high credit quality, it continually monitors their credit worthiness.

Customer concentration risk

Three customers accounted for approximately 59.3%, 22.5% and 17.9% of the Company's accounts receivable as of December 31, 2022 and two customers accounted for approximately 28.5% and 66.6% of the Company's accounts receivable as of December 31, 2021.

|            | <u>December 31,</u><br><u>2022</u> |          | <u>December 31,</u><br><u>2021</u> |          |
|------------|------------------------------------|----------|------------------------------------|----------|
|            | <u>Amount</u>                      | <u>%</u> | <u>Amount</u>                      | <u>%</u> |
| Customer A | \$ 43,075                          | 59.3%    | \$ 47,054                          | 28.5%    |
| Customer B | \$ 16,345                          | 22.5%    | \$ -                               | -        |
| Customer C | \$ 12,966                          | 17.9%    | \$ -                               | -        |
| Customer D | \$ -                               | 0.0%     | \$ 109,792                         | 66.6%    |

All of the Company's revenue was generated in the PRC.

Vendor concentration risk

One vendor, a related party accounted for 30.5%, 30.1% and 65.7% of the Company's purchases for the years ended December 31, 2022, 2021 and 2020, respectively. There is no accounts payable concentration for the years ended December 31, 2022 and 2021.

**Note 12 – Related party transactions**

a. Accounts receivable – related parties consist of the following:

|  | <u>Relationship</u>   | <u>Nature</u>                                     | <u>December 31,</u><br><u>2022</u> | <u>December 31,</u><br><u>2021</u> |
|--|---|---|------------------------------------|------------------------------------|
| Nanjing Culture Exchange Art Property Exchange Co., Ltd. ("Nanjing Culture") | Mr. Huajun Gao, the general manager and director of Nanjing Culture, and Mr. Aimin Kong, the vice chairman of Nanjing Culture, each beneficially owns 11.5% shares of the Company | Receivable from technological service fee revenue | \$ 16,345                          | \$ 6,070                           |
| Jinling Cultural Property Exchange Co., Ltd. ("Jinling Cultural")            | Its major shareholder is also a major shareholder of Jiangsu Yanggu   | Receivable from technological service fee revenue | 12,966                             | 2,023                              |
| <b>Total</b>   |   |   | <b>\$ 29,311</b>                   | <b>\$ 8,093</b>                    |



**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

b. Accounts payable – related parties consist of the following:

|   | <u>Relationship</u>   | <u>Nature</u>                           | <u>December 31,<br/>2022</u> | <u>December 31,<br/>2021</u> |
|---|---|---|------------------------------|------------------------------|
| Kashi Jinwang Art Purchase E-commerce Co., Ltd. | 100% owned by Nanjing Jinwang Art Purchase E-commerce Co., Ltd., a related party of the Company | Payable for online advertising expenses | -                            | 1,665                        |
| Zhongcang Warehouse Co., Ltd.                   | An 18% subsidiary of the VIE of the Company   | Payable for storage fees                | 28,727                       | -                            |
| <b>Total</b>                                    |   |   | <u>\$ 28,727</u>             | <u>\$ 1,665</u>              |

c. Other payables – related parties consist of the following:

Other payables – related parties are those nontrade payables arising from transactions between the Company and its related parties, such as payments paid on behalf of the Company.

|              | <u>Relationship</u>                               | <u>December 31,<br/>2022</u> | <u>December 31,<br/>2021</u> |
|--------------|---|------------------------------|------------------------------|
| Mun Wah Wan  | Chairman of the board of directors of the Company | 3,262                        | -                            |
| <b>Total</b> |   | <u>\$ 3,262</u>              | <u>\$ -</u>                  |

d. Net revenues – related parties consist of the following:

|   | <u>Relationship</u>   | <u>Nature</u>                     | <u>Year Ended<br/>December 31,<br/>2022</u> | <u>Year Ended<br/>December 31,<br/>2021</u> | <u>Year Ended<br/>December 31,<br/>2020</u> |
|---|---|-----------------------------------|---|---|---|
| Nanjing Culture   | Mr. Huajun Gao, the general manager and director of Nanjing Culture, and Mr. Aimin Kong, the vice chairman of Nanjing Culture, each beneficially owns 11.5% shares of the Company | Technological service fee revenue | \$ 29,934                                   | \$ 38,959                                   | \$ 41,571                                   |
| Jinling Cultural  | It is owned by our 11.5% beneficial shareholder, Huajun Gao   | Technological service fee revenue | 21,542                                      | 22,519                                      | 21,042                                      |
| Hunan Huaqiang Artwork Trading Center Co., Ltd.                       | 49% owned by Jinling Cultural   | Technological service fee revenue | 17,091                                      | 21,821                                      | 20,390                                      |
| Nanjing Jinwang Art Purchase E-commerce Co., Ltd. (“Nanjing Jinwang”) | It is owned by Huajun Gao and Aimin Kong, each a 11.5% beneficial shareholder of the Company  | Technological service fee revenue | -   | 17,813                                      | -   |
| Kashi Jinwang Art Purchase E-commerce Co., Ltd.                       | 100% owned by Nanjing Jinwang   | Technological service fee revenue | 97,758                                      | 132,045                                     | 130,169                                     |
| <b>Total</b>  |   |                                   | <u>\$ 166,325</u>                           | <u>\$ 233,157</u>                           | <u>\$ 213,172</u>                           |

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

e. Cost of revenues – related party consists of the following:

|                               | <u>Relationship</u>                         | <u>Nature</u> | <u>Year Ended<br/>December 31,<br/>2022</u> | <u>Year Ended<br/>December 31,<br/>2021</u> |
|-------------------------------|---|---------------|---|---|
| Zhongcang Warehouse Co., Ltd. | An 18% subsidiary of the VIE of the Company | Storage fees  | \$ 304,400                                  | \$ 730,006                                  |

f. Selling and marketing expenses – related party consists of the following:

|   | <u>Relationship</u>           | <u>Nature</u>               | <u>Year Ended<br/>December 31,<br/>2022</u> | <u>Year Ended<br/>December 31,<br/>2021</u> |
|---|-------------------------------|-----------------------------|---|---|
| Kashi Jinwang Art Purchase E-commerce Co., Ltd. | 100% owned by Nanjing Jinwang | Online advertising expenses | \$ 43,590                                   | \$ 359,967                                  |

In 2019, the Company entered into advertising contract with Kashi Jinwang Art Purchase E-commerce Co., Ltd. pursuant to which the Company would use advertising space on Kashi Jinwang’s website from January 1, 2019 to December 31, 2022. The Company was charged a yearly advertising fee of approximately \$0.18 million adjustable by actual usage, which was approximately 1.7% of the Company’s initial listing value of collectible or artwork at the time when the contract was entered. On May 1, 2020, the contract between the Company and Kashi Jinwang Art Purchase E-commerce Co., Ltd. was amended and the monthly advertising fee was fixed at 1.5% of the initial listing value of collectible or artwork from May 1, 2020 to December 31, 2022. The contract was further amended on June 25, 2020, pursuant to which the fee will be 2.25% of the initial listing value of collectibles or artwork from July 1, 2020 to December 31, 2020, then return back to 1.5% from January 1, 2021 to December 31, 2022.

g. During the years ended December 31, 2022, 2021 and 2020, HKDAEx paid approximately \$51,000, \$65,000 and \$54,000, respectively, to HKFAEx, a company owned by our Chairman for accounting and business administration services.

h. The Company entered into a non-cancellable Office Premises Use Contract with Nanjing Culture and Artwork Property Exchange Co., Ltd. which is controlled by Huajun Gao and Aimin Kong, each is a 11.5% beneficial shareholder of the Company, for an office from January 1, 2020 to December 31, 2020 with a monthly rental of approximately \$14,000 including VAT taxes. The Company renewed the lease under the same terms from January 1, 2021 to December 31, 2021 and then renewed again to December 31, 2022. Total rental expense for the years ended December 31, 2022, 2021 and 2020 was approximately \$151,000, \$158,000 and \$148,000, respectively.

i. Other receivables – related party consist of funds which are held in trading platform trust account entrusted with Nanjing Jinwang. The funds are unrestricted as to immediate withdrawal and use after the Company’s customers completed the necessary administrative procedures from the platform. The Company normally make withdraw monthly. As of March 22, 2023, approximately RMB 6.0 million (\$ 0.9 million) was returned to the Company.

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 13 – Equity**

Pursuant to the Amended and Restated Article of Association adopted by a special resolution of the shareholders of the Company dated September 12, 2019, the authorized shares of 50,000,000 ordinary shares were re-designated to 50,000,000 preferred shares of a nominal or par value of USD 0.0001 each.

On November 8, 2019, the shareholders of the Company adopted the Second Amended and Restated Articles of Association to effect a 2 for 1 forward share split of the total authorized and issued and outstanding shares of the Company. As a result of the 2 for 1 forward share split, the Company's total authorized shares are 1,000,000,000 shares comprising of (i) 900,000,000 ordinary shares with a par value of \$0.00005 each and (ii) 100,000,000 preferred shares with a par value of \$0.00005 each, and the Company's issued and outstanding ordinary shares increased from 12,400,000 shares to 24,800,000 shares. In addition, all existing shareholders agreed to surrender to the Company as treasury shares, 12.5% of the then outstanding ordinary shares (3,100,000 ordinary shares) for no consideration.

On May 28, 2020, all existing shareholders of the Company agreed to surrender an additional 6,510,000 ordinary shares, or 30% of the Company's then outstanding ordinary shares, at no consideration to be reserved as treasury shares of the Company.

On December 1, 2020, the Company completed its IPO of 5,065,000 ordinary shares and 59,400 option shares at a public offering price of \$4.00 per share, par value US\$0.00005 per share, resulting in net proceeds to the Company of approximately \$17.3 million after deducting underwriting commission, offering costs and other expenses.

During the year ended December 31, 2020, in connection with the IPO, the Company issued warrants to purchase 409,952 ordinary shares to the underwriters. The underwriters' warrants have a five-year term and an exercise price of \$5.00 per share. On December 17, 2020, the underwriters exercised options to purchase the 409,952 ordinary shares, on a cashless basis, resulting in the issuance of 130,312 ordinary shares.

On December 7, 2021, the Company entered into Securities Purchase Agreements ("Agreements") with two investors ("Investors"), pursuant to which the Company agreed to sell to the Investors in private placements a total of 600,000 ordinary shares (the "Shares") of the Company, par value \$0.00005 per share, at a purchase price of \$5.00 per share for \$3,000,000 (the "Private Placements"). In connection with offering, the Company has also agreed to issue the warrants to the Investors to purchase up to an aggregate of 600,000 ordinary shares at an exercise price of \$6.00 per share (the "Warrants"). The Warrants have a term of one year and are exercisable by the holder at any time after the date of issuance and prior to the expiration of the Warrants. The Shares would be issued pursuant to the exemption from registration provided by Regulation S promulgated under the Securities Act of 1933, as amended. The Company issued 600,000 shares to investors and recorded net proceed of \$2.0 million as of December 31, 2021. Subscription receivable amounted to \$1.0 million as of December 31, 2021. This receivable was received during the year ended December 31, 2022.

On June 6, 2022, the Company entered into a Business Management Consulting Agreement with Jiangsu Siluete Brand Management Co. Ltd. ("Jiangsu Siluete"), pursuant to which the Company agreed to issue 182,280 shares to Gao Mei, who is the shareholder and CEO of Jiangsu Siluete, for consulting fee to Jiangsu Siluete from March 1, 2022 to February 28, 2023. The total stock compensation for the year ended December 31, 2022 was \$464,814 based on grant date fair value of \$557,777 or \$3.06 per share.

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Warrants

The Company accounts for warrants as either equity-classified or liability-classified instruments based on an assessment of the warrant's specific terms and applicable authoritative guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 480, Distinguishing Liabilities from Equity ("ASC 480") and ASC 815, Derivatives and Hedging ("ASC 815"). The assessment considers whether the warrants are freestanding financial instruments pursuant to ASC 480, meet the definition of a liability pursuant to ASC 480, and whether the warrants meet all of the requirements for equity classification under ASC 815, including whether the warrants are indexed to the Company's own ordinary shares and whether the warrant holders could potentially require "net cash settlement" in circumstances outside of the Company's control, among other conditions for equity classification. This assessment, which requires the use of professional judgment, is conducted at the time of warrant issuance and as of each subsequent quarterly period end date while the warrants are outstanding.

For issued or modified warrants that meet all of the criteria for equity classification, the warrants are required to be recorded as a component of additional paid-in capital at the time of issuance. For issued or modified warrants that do not meet all the criteria for equity classification, the warrants are required to be recorded at their initial fair value on the date of issuance, and each balance sheet date thereafter. Changes in the estimated fair value of the warrants are recognized as a non-cash gain or loss on the statements of operations. The Company evaluated its warrants and determined the warrants are indexed to the Company's own stock as the warrants do not contain any exercise contingencies, the warrants' settlement amount equals the difference between the fair value of the Company's common stock price and the warrant contract strike price and the only variables which could affect the settlement amount would be inputs to the fair value for a fixed-for-fixed option on equity shares. The Company also analyzed ASC 815-40-25 to determine whether the warrant contracts should be classified in stockholders' equity in the Company's balance sheets and concluded that the warrant contracts meet all of the criteria for classification as equity as the Company is not required to net settle. Based on this analysis, the Company determined the warrant contracts should be classified as equity.

Following is a summary of the status of warrants outstanding and exercisable as of December 31, 2022:

|   | <b>Warrants</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |
|---|-----------------|--|
| Warrants outstanding, as of December 31, 2020 | -               | \$ -   |
| Issued  | 600,000         | 6.00   |
| Exercised                                     | -               | -  |
| Expired                                       | -               | -  |
| Warrants outstanding, as of December 31, 2021 | <u>600,000</u>  | <u>\$ 6.00</u>                                     |
| Issued  | -               | -  |
| Exercised                                     | -               | -  |
| Expired                                       | <u>600,000</u>  | <u>\$ 6.00</u>                                     |
| Warrants outstanding, as of December 31, 2022 | <u>-</u>        | <u>\$ -</u>  |
| Warrants exercisable, as of December 31, 2022 | <u>-</u>        | <u>\$ -</u>  |

## ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Restricted net assets

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions from its subsidiary. Relevant PRC statutory laws and regulations permit payments of dividends by Oriental Culture, the WFOE, its VIE Jiangsu Yanggu and subsidiaries of Jiangsu Yanggu, Nanjing Yanyu, Nanjing Yanqing, Kashi Longrui, and Kashi Dongfang (collectively "Jiangsu Yanggu PRC entities") only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the accompanying consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of Jiangsu Yanggu PRC entities.

Oriental Culture WFOE and Jiangsu Yanggu PRC entities are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of their registered capital. In addition, Oriental Culture WFOE and Jiangsu Yanggu PRC entities may allocate a portion of their after-tax profits based on PRC accounting standards to an enterprise expansion fund and staff bonus and welfare fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by the State Administration of Foreign Exchange ("SAFE").

As a result of the foregoing restrictions, Oriental Culture WFOE and Jiangsu Yanggu PRC entities are restricted in their ability to transfer their net assets to the Company. Foreign exchange and other regulations in the PRC may further restrict Oriental Culture WFOE and Jiangsu Yanggu PRC entities from transferring funds to the Company in the form of dividends, loans and advances. As of December 31, 2022, amounts restricted are the net assets of Oriental Culture WFOE and Jiangsu Yanggu PRC entities, which were approximately \$40,620,000.

#### Equity Incentive Plan

The Company's 2021 Omnibus Equity Plan ("the Plan") was approved by the board of directors on November 8, 2021 by unanimous written consent and approved by the shareholders on December 16, 2021. The Plan allows for awards of up to 4,000,000 ordinary shares. No shares have been granted as of the date of this report.

#### **Note 14 – 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. Amounts accrued, as well as the total amount of reasonably possible losses with respect to such matters, individually and in the aggregate, are not deemed to be material to the consolidated financial statements.

On July 1, 2022, Mr. Huajun Gao and Mr. Aiming Kong, each an 11.5% shareholder of Oriental Culture Holding LTD (the "Company"), were detained by Nan County Public Safety Bureau of Yiyang City, Hunan Province, China. On July 26, 2022, Nan County People's Procuratorate approved the arrest of Mr. Gao and Mr. Kong with charge of illegal business operation of Nanjing Jinwang Art Purchase E-commerce Co., Ltd., a company controlled by Mr. Gao and Mr. Kong ("Nanjing Jinwang"). On July 1, 2022, the bank accounts of Nanjing Jinwang were frozen by Nan County Public Safety Bureau, including a trust account into which the customers of the Company deposit their security deposits in order to trade on the Company's two online trading platforms which the Company has entrusted Nanjing Jinwang for escrow.

## ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Also, on July 1, 2022, Nan County Public Safety Bureau froze certain bank accounts of Kashi Longrui Business Management Services Co., Ltd. (“Kashi Longrui”), Kashi Dongfang Cangpin Culture Development Co., Ltd. (“Kashi Dongfang”) and Nanjing Yanyu Information Technology Co., Ltd. (“Nanjing Yanyu”), all subsidiaries of Jiangsu Yanggu Culture Development Co., Ltd., the VIE because they, each had business relationship with Nanjing Jinwang.

Neither the Company nor its VIE or subsidiaries of its VIE has received any notification for enforcement charges from Nan County Public Safety Bureau, other than cash and short term investment in the frozen bank accounts with balances totaling approximately \$16.5 million and due from Nanjing Jinwang of approximately 3.4 million relating to the Nanjing Jinwang investigation as described above as of December 31, 2022. Currently the customers can freely transfer their deposits and make their withdrawals based on their actual needs. Mr. Gao and Mr. Kong are not officers, directors or employees of the Company, its VIE or subsidiaries of the VIE.

Due to the investigation of Nanjing Jinwang and frozen bank accounts, the business operations of the Company have been materially and negatively impacted as its customers experienced difficulties withdrawing their security deposits through online banking and have concerns regarding their deposited funds. The Company has taken remedial measures to assist its customers in withdrawing security deposits, such as through manual and in person application with the bank to transfer funds, so that they will have confidence in the Company and continue to list and trade art and collectible products on the online platforms of the Company. However, there can be no assurance that these measures will restore customer confidence in using the Company’s services efficiently or at all.

The investigation of Mr. Gao, Mr. Kong and Nanjing Jinwang is ongoing. The Company has and will continue to communicate with Nan County Public Safety Bureau and other government authorities to obtain more information regarding the investigation and to attempt to unfreeze the bank accounts for the subsidiaries of the VIE. The Company will monitor the development of the investigation and will provide additional information concerning its impact on the Company’s business in due course.

#### Variable interest entity structure

In the opinion of management, (i) the corporate structure of the Company is in compliance with existing PRC laws and regulations; (ii) the Contractual Arrangements are valid and binding, and do not result in any violation of PRC laws or regulations currently in effect; and (iii) the business operations of the WFOE and the VIEs are in compliance with existing PRC laws and regulations in all material respects. However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, the Company cannot be assured that PRC regulatory authorities will not ultimately take a contrary view to the foregoing opinion of the management. If the current corporate structure of the Company or the Contractual Arrangements are found to be in violation of any existing or future PRC laws and regulations, the Company may be required to restructure its corporate structure and operations in the PRC to comply with the changes and the new PRC laws and regulations. In the opinion of management, the likelihood of loss in respect of the Company’s current corporate structure or the Contractual Arrangements is remote based on current facts and circumstances.

The Company has not provided for deferred income tax liabilities on the PRC entities’ undistributed earnings as of December 31, 2022 and 2021, respectively, because the Company controls the timing of the undistributed earnings and it is probable that such earnings will not be distributed. The Company plans to reinvest those earnings in the PRC indefinitely in the foreseeable future.

#### Lease commitments

The Company has three non-cancellable operating lease agreements for three office units. These lease agreements have lease terms expiring between end of June 2022 and July 2024 with a monthly rental of approximately \$1,900, \$14,000 and \$3,900, respectively.

Upon adoption of ASU 2016-02 on January 1, 2021 for the Company’s only lease that is over one year, the Company recognized approximately \$34,600 of right of use (“ROU”) assets and approximately \$34,600 of operating lease liabilities based on the present value of the future minimum rental payments of leases, using incremental borrowing rate of 4.75%.



**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of December 31, 2022, the Company's operating leases had a weighted average remaining lease term of approximately 1.50 years and weighted average discount rate was 4.75%.

The Company's commitments for minimum lease payment under these operating leases as of December 31, 2022 are as follows:

| <b>Twelve months ending December 31,</b> | <b>Minimum<br/>lease<br/>payment</b> |
|--|--------------------------------------|
| 2023                                     | \$ 21,027                            |
| 2024                                     | 11,536                               |
| Total undiscounted liabilities           | 32,563                               |
| Less: Imputed interest                   | 264                                  |
| Total lease liabilities                  | \$ 32,299                            |

Rent expense for the years ended December 31, 2022 and 2021 was \$179,552 and \$186,834, respectively.

**Coronavirus ("COVID-19")**

Beginning in late 2019, there was an outbreak of a novel strain of coronavirus (COVID-19) in China, which has spread rapidly to many parts of the world. To prevent and control the spread of the pandemic, the Chinese governments issued administrative orders to impose travel and public gathering restrictions as well as work from home and self-quarantine restrictions in early 2020.

Our business, financial condition, and results of operations have been adversely affected by the outbreak of COVID-19 as our net revenues and net income decreased during the first half of 2020. Starting in July 2020, our revenues and net income recovered as individuals and entities resumed their business activities which were delayed or postponed due to the COVID-19 outbreak. Our revenue and net income increased for the year ended December 31, 2021 compared to 2020 as we recovered from impact of the pandemic. Our revenue and net income decreased for the year ended December 31, 2022 compared to 2021 because the outbreak of the Omicron variant has resulted in quarantines, travel restrictions, and the temporary closure of stores and business facilities in many part of China in 2022. Our business and results of operations have been affected due to office closures and disruption in logistics in various parts of China. China has recently started easing the strict lockdown procedures in early December 2022, which has led to surge in COVID infections and disrupt our business operations in December 2022 and January 2023. Any future impact of COVID-19 on our operation results will depend on, to a large extent, future developments and new information that may emerge regarding the duration and resurgence of COVID-19 variants and the actions taken by government authorities to contain COVID-19 or treat its impact, almost all of which are beyond our control.

**Note 15 – Subsequent Events**

The Company has evaluated subsequent events through the date these consolidated financial statements were issued and determined that there were no subsequent events that required recognition or disclosures in the consolidated financial statements.

**Note 16 – Financial information of the parent company**

The Company performed a test on the restricted net assets of its consolidated subsidiaries in accordance with the Securities and Exchange Commission Regulation S-X Rule 5-04 and concluded that it was applicable for the Company to disclose the financial statements for the parent company.

The subsidiary did not pay any dividends to the Company for the periods presented. For the purpose of presenting parent only financial information, the Company records its investment in its subsidiaries and VIEs under the equity method of accounting. Such investments are presented on the separate condensed balance sheets of the Company as "Investment in subsidiaries and VIEs" and the income of the subsidiaries and VIEs is presented as "Equity income of subsidiaries and VIEs". Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP are not required.

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company did not have significant capital and other commitments, long-term obligations, or guarantees as of December 31, 2022 and 2021.

**PARENT COMPANY BALANCE SHEETS**

|   | <b>December 31,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|---|------------------------------|------------------------------|
| <u>ASSETS</u>   |                              |                              |
| <b>CURRENT ASSETS</b>   |                              |                              |
| Cash and cash equivalents   | \$ 14,452,747                | \$ 22,086,787                |
| Other current asset   | 1,324,063                    | 491,000                      |
| Escrow  | 600,000                      | 600,000                      |
| Other receivable - intercompany   | 3,224,949                    | 2,862,436                    |
| Total current assets  | <u>19,601,759</u>            | <u>26,040,223</u>            |
| <b>OTHER ASSETS</b>   |                              |                              |
| Investment in subsidiary  | 39,653,486                   | 35,881,493                   |
| Total other assets  | <u>39,653,486</u>            | <u>35,881,493</u>            |
| Total assets  | <u>\$ 59,255,245</u>         | <u>\$ 61,921,716</u>         |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>   |                              |                              |
| <b>CURRENT LIABILITIES</b>  |                              |                              |
| Accounts payable  | \$ 70,000                    | \$ 140,000                   |
| Other payables and accrued liabilities  |                              | 23,958                       |
| Other payables - intercompany   | 9,569,397                    | 14,569,398                   |
| Total current liabilities   | <u>9,639,397</u>             | <u>14,733,356</u>            |
| Total liabilities   | <u>9,639,397</u>             | <u>14,733,356</u>            |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                              |                              |
| <b>SHAREHOLDERS' EQUITY</b>   |                              |                              |
| Preferred shares, \$0.00005 par value, 100,000,000 shares authorized, no shares issued and outstanding  | -                            | -                            |
| Ordinary shares, \$0.00005 par value, 900,000,000 shares authorized, 30,836,992 and 30,654,712 shares issued, 21,226,992 and 21,044,712 shares outstanding as of December 31, 2022 and 2021, respectively | 1,542                        | 1,533                        |
| Treasury shares, at cost, 9,610,000 shares  | (481)                        | (481)                        |
| Additional paid-in capital  | 22,349,767                   | 21,884,962                   |
| Subscription receivable   | -                            | (1,000,000)                  |
| Statutory reserves  | 124,757                      | 112,347                      |
| Retained earnings   | 28,315,319                   | 25,092,043                   |
| Accumulated other comprehensive income (loss)   | (1,175,056)                  | 1,097,956                    |
| Total shareholders' equity  | <u>49,615,848</u>            | <u>47,188,360</u>            |
| Total liabilities and shareholders' equity  | <u>\$ 59,255,245</u>         | <u>\$ 61,921,716</u>         |

ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PARENT COMPANY STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

|  | Years Ended December 31, |                      |                     |
|--|--------------------------|----------------------|---------------------|
|  | 2022                     | 2021                 | 2020                |
| OPERATING EXPENSES:                      |                          |                      |                     |
| General and administrative               | \$ (2,869,077)           | \$ (3,501,857)       | \$ (4,452,154)      |
| Total operating expenses                 | <u>(2,869,077)</u>       | <u>(3,501,857)</u>   | <u>(4,452,154)</u>  |
| LOSS FROM OPERATIONS                     | (2,869,077)              | 3,501,857            | (4,452,154)         |
| OTHER INCOME (EXPENSE)                   |                          |                      |                     |
| Finance expense                          | 59,758                   | 1,079                | (17,410)            |
| Other income, net                        | -                        | -                    | -                   |
| Share of income of subsidiaries          | 6,045,005                | 14,945,051           | 6,517,671           |
| Total other income, net                  | <u>6,104,763</u>         | <u>14,946,130</u>    | <u>6,500,261</u>    |
| NET INCOME                               | \$ 3,235,686             | \$ 11,444,273        | \$ 2,048,107        |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS | <u>(2,273,012)</u>       | <u>174,841</u>       | <u>1,144,657</u>    |
| COMPREHENSIVE INCOME                     | <u>\$ 962,674</u>        | <u>\$ 11,619,114</u> | <u>\$ 3,192,764</u> |

**ORIENTAL CULTURE HOLDING LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**PARENT COMPANY STATEMENTS OF CASH FLOWS**

|   | <b>For the Years Ended December 31,</b> |                      |                      |
|---|---|----------------------|----------------------|
|   | <b>2022</b>                             | <b>2021</b>          | <b>2020</b>          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                              |   |                      |                      |
| Net income  | \$ 3,235,686                            | \$ 11,444,273        | \$ 2,048,107         |
| Adjustments to reconcile net income to cash used in operating activities: |   |                      |                      |
| Equity income of subsidiaries and VIEs                                    | (6,045,005)                             | (14,945,051)         | (6,517,671)          |
| Change in operating assets and liabilities:                               |   |                      |                      |
| Depreciation and amortization   | -                                       | -                    | -                    |
| (Decrease) increase in accounts payable                                   | (70,000)                                | (2,820,000)          | 2,960,000            |
| (Decrease) increase in other payables and accrued liabilities             | (23,958)                                | (517,960)            | 50,918               |
| (Increase) in other receivable and other current assets                   | (833,063)                               | -                    | -                    |
| (Increase) in other receivable - intercompany                             | (362,514)                               | (2,862,437)          | -                    |
| Increase (decrease) in other payables - intercompany                      | (5,000,000)                             | 13,174,933           | (18,993)             |
| Common stock issue for service  | 464,814                                 | -                    | -                    |
| Net cash used in operating activities                                     | <u>(8,634,040)</u>                      | <u>3,473,758</u>     | <u>(1,477,639)</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                              |   |                      |                      |
| Purchase of intangible assets   | -                                       | -                    | -                    |
| Net cash used in investing activities                                     | <u>-</u>                                | <u>-</u>             | <u>-</u>             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                              |   |                      |                      |
| Proceeds from sale of ordinary shares, net                                | 1,000,000.00                            | 2,000,000            | 18,090,668           |
| Net cash provided by financing activities                                 | <u>1,000,000.00</u>                     | <u>2,000,000</u>     | <u>18,090,668</u>    |
| <b>CHANGES IN CASH AND CASH EQUIVALENTS</b>                               | <b>(7,634,040)</b>                      | <b>5,473,758</b>     | <b>16,613,029</b>    |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>                       | <b>22,086,787</b>                       | <b>16,613,029</b>    | <b>-</b>             |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>                             | <b>\$ 14,452,747</b>                    | <b>\$ 22,086,787</b> | <b>\$ 16,613,029</b> |
| <b>NON-CASH TRANSACTIONS OF FINANCING ACTIVITIES</b>                      |   |                      |                      |
| Business acquisition through issuance of ordinary shares                  | \$ -                                    | \$ -                 | \$ -                 |
| Proceeds from initial public offerings deposited with escrow              | \$ -                                    | \$ -                 | \$ 600,000           |
| Proceeds from initial public offerings offset with intercompany payable   | \$ -                                    | \$ -                 | \$ 1,413,458         |

**Description of Rights of Securities Registered Under Section 12 of the Securities Exchange Act of 1934**

The Ordinary Shares of Oriental Culture Holding LTD. (the “Company”) are listed on the Nasdaq Capital Market and are registered under Section 12(b) of the Exchange Act.

We are a Cayman Islands exempted company limited by shares and our affairs are governed by our current memorandum and articles of association and the Companies Act (As Revised) of the Cayman Islands, which we refer to as the “Companies Act” below, and the common law of the Cayman Islands.

Our authorized share capital is \$50,000.00 divided into 1,000,000,000 shares comprising of (i) 900,000,000 ordinary shares of a nominal or par value of \$0.00005 each; and (ii) 100,000,000 preferred shares of a nominal or par value of \$0.00005 each. As of April 27, 2023, 21,226,992 ordinary shares are outstanding and no preferred share is issued or outstanding.

Our shareholders adopted our second amended and restated memorandum and articles of association by way of a special resolution on November 8, 2019.

Our registered office in the Cayman Islands is located at Sertus Chambers, Governors Square, Suite # 5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1-1104, Cayman Islands.

According to clause 3 of our current amended and restated memorandum of association, the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by of The Companies Act (As Revised) or as the same may be amended from time to time, or any other law of the Cayman Islands.

**Ordinary Shares**

*Dividends.* Subject to any rights and restrictions of any other class or series of shares, our board of directors may, from time to time, declare dividends on the shares issued and authorize payment of the dividends out of our lawfully available funds. No dividends shall be declared by the board out of our company except the following:

- profits; or
- “share premium account,” which represents the excess of the price paid to our company on issue of its shares over the par or “nominal” value of those shares, which is similar to the U.S. concept of additional paid in capital.

However, no dividend shall bear interest against the Company.

*Voting Rights.* The holders of our ordinary shares are entitled to one vote per share, including the election of directors. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. On a show of hands every shareholder present in person or by proxy shall have one vote. On a poll every shareholder entitled to vote (in person or by proxy) shall have one vote for each share for which he/she is the holder. A poll may be demanded by the chairman or one or more shareholders present in person or by proxy holding not less than 10 percent of the paid up share capital of the Company entitled to vote. A quorum required for a meeting of shareholders consists of shareholders who hold at least one-third of our issued and outstanding shares entitled to vote at the meeting present in person or by proxy and that any holder of shares of the class present in person or by proxy may demand a poll. While not required by our articles of association, a proxy form will accompany any notice of general meeting convened by the directors to facilitate the ability of shareholders to vote by proxy.

Any ordinary resolution to be made by the shareholders requires the affirmative vote of a simple majority of the votes of the issued and outstanding ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no fewer than two-thirds of the votes of the issued and outstanding ordinary shares cast. Under Cayman Islands law, some matters, such as amending the memorandum and articles, changing the name or resolving to be registered by way of continuation in a jurisdiction outside the Cayman Islands, require approval of shareholders by a special resolution.

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There are no limitations on non-residents or foreign shareholders in the current memorandum and articles to hold or exercise voting rights on the ordinary shares imposed by foreign law or by the charter or other constituent document of our company. However, no person will be entitled to vote at any general meeting or at any separate meeting of the holders of the ordinary shares unless the person is registered as of the record date for such meeting and unless all calls or other sums presently payable by the person in respect of ordinary shares in the Company have been paid.

*Winding Up; Liquidation.* Upon the winding up of our company, after the full amount that holders of any issued shares ranking senior to the ordinary shares as to distribution on liquidation or winding up are entitled to receive has been paid or set aside for payment, the holders of our ordinary shares are entitled to receive any remaining assets of the Company available for distribution as determined by the liquidator. The assets received by the holders of our ordinary shares in a liquidation may consist in whole or in part of property, which is not required to be of the same kind for all shareholders.

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

*Redemption of Ordinary Shares.* We may issue shares that are, or at its option or at the option of the holders are, subject to redemption on such terms and in such manner as it may, before the issue of the shares, determine. Under the Companies Act, shares of a Cayman Islands exempted company may be redeemed or repurchased out of profits or share premium of the company, provided the current memorandum and articles authorize this and it has the ability to pay its debts as they come due in the ordinary course of business.

*No Preemptive Rights.* Holders of ordinary shares will have no preemptive or preferential right to purchase any securities of our company.

*Variation of Rights Attaching to Shares.* If at any time the share capital is divided into different classes of shares, the rights attaching to any class (unless otherwise provided by the terms of issue of the shares of that class) may, subject to the current memorandum and articles, be varied or abrogated with the consent in writing of the holders of all of the issued shares of that class or with the sanction of an ordinary resolution passed at a general meeting of the holders of the shares of that class.

*Anti-Takeover Provisions.* Some provisions of our current 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 preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our current memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

*Transfer of Shares.* Subject to certain restriction in the articles of association as may be applicable, any shareholder may transfer all or any of its shares by an instrument in writing in any usual or common form or any other form which the Board of Directors may approve or on behalf of the transferor and if in respect of a nil or partly paid up share or if so required by the Board of Directors shall also be executed on behalf of the transferee and shall be accompanied by the certificate of the shares to which it relates and such other evidence as the Board of Directors may reasonably require to show the right of the transferor to make the transfer. The transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the Register of Members/Shareholders in respect thereof.

The Board of Directors may in their absolute discretion to decline to register any transfer of any share, whether or not it is a fully paid share, without assigning any reason for so doing. If the Board of Directors refuse to register a transfer, they shall within 2 months of the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal.

All instruments of transfer which shall be registered shall be retained by the Company, but any instrument of transfer which the Board of Directors may decline to register shall (except in any case of fraud) be returned to the person depositing the same.

The registration of transfers may be suspended at such times and for such periods as the Board of Directors may from time to time determine, provided always that such registration shall not be suspended for more than 45 days in any year.

#### *Inspection of Books and Records*

Holders of our shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than our memorandum and articles of association and any special resolutions passed by our shareholders, and the register of mortgages and charges of our company).

*General Meeting of Shareholders.* Shareholders' meetings may be convened by our board of directors. Advance notice of at least seven (7) calendar days is required for the convening of our annual general shareholders' meeting and any other general meeting of our shareholders. No business shall be transacted at any general meeting unless a quorum of shareholders is present at the time when the meeting proceeds to business. Save as otherwise provided by the articles of association, a quorum shall consist of one or more shareholders present in person or by proxy holding at least one-third (1/3) of the paid up voting share capital of the Company.

*Exempted Company.* We are an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- 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.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

## **Listing**

Our ordinary shares are listed on the Nasdaq Capital Market under the symbol “OCG”

## **Transfer Agent and Registrar**

The transfer agent and registrar for our ordinary shares is VStock Transfer LLC. The transfer agent and registrar’s address is 18 Lafayette Pl, Woodmere, NY 11598.

## **Warrants**

On December 7, 2021, the Company entered into Securities Purchase Agreements (“Agreements”) with two investors (“Investors”), pursuant to which the Company agreed to sell to the Investors in private placements a total of 600,000 ordinary shares (the “Shares”) of the Company, par value \$0.00005 per share, at a purchase price of \$5.00 per share for an aggregate offering price of \$3,000,000 (the “Private Placements”). In connection with offering, the Company has also agreed to issue the warrants to the Investors to purchase up to an aggregate of 600,000 ordinary shares at an exercise price of \$6.00 per share (the “Warrants”). The Warrants have a term of one year and are exercisable by the holder at any time after the date of issuance and before the expiration. As of December 31, 2022 and the date of this report, the Warrants have expired without being exercised.

## **Differences in Corporate Law**

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

**Mergers and Similar Arrangements.** A merger of two or more constituent companies under Cayman Islands law requires a plan of merger or consolidation to be approved by the directors of each constituent company and authorization by (a) a special resolution of the shareholders and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association.

A merger between a Cayman Islands parent company and its Cayman Islands subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman Islands subsidiary if a copy of the plan of merger is given to every member of that Cayman Islands subsidiary to be merged unless that member agrees otherwise. For this purpose, a subsidiary is a company of which at least ninety percent (90%) of the issued shares entitled to vote are owned by the parent company.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain circumstances, a dissentient shareholder of a Cayman constituent company is entitled to payment of the fair value of his shares upon dissenting to a merger or consolidation. The exercise of appraisal rights will preclude the exercise of any other rights save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

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 and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;



- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act.

When a takeover offer is made and accepted by holders of 90.0% of the shares within four months, the offeror may, within a two-month period commencing on the expiration of such four-month 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 in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an 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 certain Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares where the vote of shareholders is required to approve the transaction.

**Shareholders' Suits.** In principle, we will normally be the proper plaintiff 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;
- the act complained of, although not ultra vires, could only be effected duly 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.** Cayman Islands 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 current 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 or fraud of such directors or officers. This standard of conduct is similar to but little more lax than that permitted under the Delaware General Corporation Law for a Delaware corporation, which permits indemnification if the person to be indemnified acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Delaware corporation, and, with respect to any criminal action or proceeding, such person to be indemnified had no reasonable cause to believe such person's conduct was unlawful. In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in our current memorandum and articles of association.

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 and base such director's decision on such information. In doing so, a Delaware director is entitled to rely in good faith on corporation's records and on information, opinions, reports or statements presented to the board by the company's officers, employees or board committees, or by other parties as to matters the director reasonably believes are within such other parties' professional or expert competence and who have been selected for the company with reasonable care. Further, Delaware corporations may include in their certificates of incorporation an exculpation provision for the benefit of its directors. At its maximum strength, such an exculpatory provision eliminates the personal liability of a director to the corporation or its stockholders for monetary damages for breaches of the duty of care (but not, among other things, breaches of the duty of loyalty). The duty of loyalty requires that a director acts independently and 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 (the "Business Judgement Rule"). However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. To rebut the presumption, a party attempting to so rebut has the burden of presenting evidence that directors were at least grossly negligent in not becoming adequately informed or were motivated by interests other than those of the company's stockholders as a whole (or acted in bad faith by consciously disregarding a known duty). 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, and a duty to exercise powers for the purpose for which such powers were intended. 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, English and Commonwealth courts have moved 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 and our current articles of association provide 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.

**Shareholder Proposals.** Under the Delaware General Corporation Law, the by-laws may afford shareholders 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.

Cayman Islands law does not provide shareholders any right to put proposals before a meeting or requisition a general meeting. However, these rights may be provided in articles of association. Our current articles of association allow our shareholders holding not less than one-third of paid up voting power of our share capital in issue to requisition a shareholder's meeting. Other than this right to requisition a shareholders' meeting, our current articles of association do not provide our shareholders other right to put proposal before a meeting. As a Cayman Islands exempted 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 laws of the Cayman Islands but our current articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any fewer protections or rights on this issue than shareholders of a Delaware corporation.

**Removal of Directors.** Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote at an election of directors, unless the certificate of incorporation provides otherwise. Under our current articles of association, directors may be removed with or without cause, by an ordinary resolution of our shareholders.

**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.

Cayman Islands 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 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 Cayman Islands 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 Act and our current 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. Under Cayman Islands law and our current 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 written consent of the holders of all of the issued shares of that class or with the sanction of an ordinary resolution passed at a general meeting of the holders of the shares of that class. The necessary quorum shall be at least one or more persons holding or representing by proxy at least one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll.

**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 for a greater required number of shares for approval. As permitted by Cayman Islands law, our current 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 current 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 current memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

**Technical Maintenance Services Contract**

Party A: Kashi Jinwang Art Purchase E-commerce Co., Ltd

Party B: Nanjing Yanyu Information Technology Co., Ltd.

In accordance with *the Civil Code of the People's Republic of China* and through friendly consultations, regarding the technical maintenance services of the trading system of Party A in the principle of equality and mutual consent, the parties hereby agree as follows:

**I Services**

The services herein refer to the operation and maintenance, technical support and other services provided by Party B to the application software for Party A, mainly including:

- 1) Daily technical support services: Consulting, analyzing and answering all kinds of questions encountered by Party A's personnel in using Party B's software, and helping Party A's personnel correctly use and maintain the relevant software system.
- 2) Application software troubleshooting: Timely eliminating problems in the process of using the software system, and restoring the normal operation of the system. Party B undertakes to remove any fault in the transaction process caused by using the software system provided by Party B and restore the normal operation of the system in time, without adversely affecting the completion of the transaction plan of Party A on the same day.
- 3) Application software upgrade: During the maintenance service period, in the process of using the application software, through friendly consultations between Party A and Party B, Party B shall be responsible for software modification and upgrade of the existing system upon certain new modifications or suggestions raised by Party A without making any major adjustments or changes to the entire system, in order to meet the requirements of Party A.

**II Service Method**

Party B shall provide Party A with the following services:

- 1) Hotline service: Party B shall provide Party A with a hotline to ensure timely service provision.
- 2) Remote online services: When necessary, Party B shall, with the consent of Party A, remotely log on to the system to provide daily inspection, system maintenance and troubleshooting services for the system.
- 3) On-site services: If any maintenance work or system failure cannot be solved remotely, Party B shall dispatch engineers to the site where the software server is located as soon as possible to solve the problems as soon as possible.
- 4) Dedicated customer service representative: Party B shall appoint dedicated customer service personnel who shall be fully responsible for service of Party A and establish dedicated maintenance files to ensure that Party B's customer service personnel have a good understanding of the previous and current situation of the system and improve the service quality.

**III Working Conditions and Collaboration Matters**

- 1) During the system maintenance, Party A shall designate relevant personnel to keep in touch with and cooperate with Party B to ensure that Party B can timely obtain relevant information required for system maintenance.
  - 2) When Party B needs to log in the system remotely online for maintenance work, Party A shall promptly provide necessary login information and open corresponding security settings to ensure that Party B can carry out remote maintenance smoothly.
  - 3) When Party A requests Party B to upgrade and modify the system software, it shall provide relevant written requests and necessary documents.
  - 4) Party B shall keep strictly confidential the relevant business data in Party A's system and shall not disclose the relevant data to any third party without Party A's prior consent.
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#### IV Term and Method of Performance

1) The service period corresponding to this contract is 1 year, from July 1, 2022 to June 30, 2023; if Party A fails to give a written notice of termination to Party B one month prior to the expiration of the service period, this agreement shall be automatically renewed for one year.

2) Upon execution of the maintenance contract and receiving the corresponding maintenance fee from Party A pursuant to this contract, Party B shall commence performing the services set forth in the contract.

3) If Party A requires Party B to continue to provide relevant technical maintenance services five working days prior to the expiration of the maintenance service period, the maintenance fee shall be subject to further consultations between both parties.

#### V Compensation and Payment Method

The fee for technical maintenance services provided by Party B for Party A's trading system is RMB 6000/ month. Party A shall pay Party B the service fee monthly on time from the effective date of this contract.

#### VI Account details

Payee: Nanjing Yanyu Information Technology Co., Ltd.

Deposit Bank: Ping An Bank Aoti Branch

Bank Account Number:

#### VII Dispute resolution

All disputes arising from the performance of this contract shall be resolved by both parties through friendly consultations. If no agreement can be reached through consultations, either party has the right to bring a lawsuit to the people's court where Party B is located. In the course of dispute resolution, this contract shall continue to be performed, except for the part under consultations or litigation.

#### VIII Force Majeure

If the continued performance of this contract is rendered impossible due to war, earthquake, fire or flood, the affected party shall immediately notify the other party of the event. In case of breach of contract caused by force majeure, the affected party may be exempted from all or part of the liability for breach of contract depending upon the extent of effects of force majeure on the performance of the contract.

#### IX Others

This contract is made in quadruplicate, two copies for each party. This contract shall come into force upon signature and seal by both parties.

Party A: Kashi Jinwang Art Purchase E-commerce Co., Ltd (Seal)

Signature of representative:

Date:

Party B: Nanjing Yanyu Information Technology Co., Ltd.(Seal)

Signature of representative:

Date: July 1, 2022

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**Office Premises Use Contract**

Party A: Nanjing Cultural and Artwork Property Exchange Co., Ltd.

Add: 4/F, Building F4, Zidong International Creative Park, Qixia District, Nanjing.

Party B: Kashi Longrui Business Management Services Co., Ltd.

Whereas Party A cooperates with Party B and now both parties hereby enter into the following contract with respect to Party B using the office space of Party A for office purposes on the basis of equal cooperation and mutual benefit, intending to be bound hereby:

I. Term of cooperation: from January 1, 2023 to December 31, 2023.

II. Each party's rights and obligations

1. Party A will provide Party B with office space, including but not limited to office premises, office furniture and broadband internet access.
2. Party B shall pay Party A usage fee of RMB 90,000 Yuan (in words: RMB ninety thousand Yuan only) each month prior to the 10<sup>th</sup> day of each month, and Party B may use the office premises, office furniture and other facilities provided by Party A.
3. Party A has the ownership of the fixed assets and facilities on the business premises and shall be responsible for coordinating with the property owner, industrial and commercial administration, tax and legal authorities.
4. The maintenance, service and additional facilities and equipment inside the office and the cleaning, hiring and labor costs shall all be borne by Party A.
5. Both parties shall jointly maintain the clean, safety and security of the office environment.
6. Both parties shall operate according to law and jointly comply with the rules and regulations related to property rights and the national policies and regulations.
7. The water and electricity expenses incurred by Party B during the office lease period shall be paid by Party A on behalf of Party B. The expenses shall ultimately be borne by Party B according to the actual usage. Party B shall issue corresponding invoices to Party A.

III. Liabilities for default

Party B shall be deemed in default and Party A has the right to terminate this contract if:

1. Party B is delinquent in payment of the rent hereunder for more than one month; or
2. Party B causes any losses to Party A due to its illegitimate business operation.

IV. Others

1. This contract shall take effect upon being signed and sealed by both parties. Any matters not specified herein shall be resolved by both parties through friendly consultations and may be incorporated into supplementary agreements to be executed by both parties with the mutual consent of both parties. The supplementary agreements shall bear the same legal effect as this agreement.
2. Any dispute arising hereunder shall be resolved by both parties through friendly consultations, if consultation fails, either party may file lawsuit with the people's court having competent jurisdiction over the place where Party A is located.
3. This contract is made in duplicate, one copy for each party and each copy bearing the same legal effect.

Party A's seal:  
Legal representative/  
representative's signature:  
Date: 30/12/2022

Party B's seal:  
Legal representative/  
representative's signature:  
Date: 30/12/2022

## Subsidiaries and Variable Interest Entity of the Registrant

| <b>Subsidiaries</b>  | <b>Place of Incorporation</b> |
|--|-------------------------------|
| Oriental Culture Development LTD                                   | British Virgin Islands        |
| HK Oriental Culture Investment Development Limited                 | Hong Kong                     |
| China International Assets and Equity of Artworks Exchange Limited | Hong Kong                     |
| HKDAEx Limited   | Hong Kong                     |
| Nanjing Rongke Business Consulting Service Co., Ltd.               | PRC                           |

| <b>Consolidated Variable Interest Entity</b> | <b>Place of Incorporation</b> |
|--|-------------------------------|
| Jiangsu Yanggu Culture Development Co., Ltd. | PRC                           |

| <b>Subsidiaries of Consolidated Variable Interest Entity</b> | <b>Place of Incorporation</b> |
|--|-------------------------------|
| Nanjing Yanqing Information Technology Co., Ltd.             | PRC                           |
| Nanjing Yanyu Information Technology Co., Ltd.               | PRC                           |
| Kashi Longrui Business Management Services Co., Ltd.         | PRC                           |
| Kashi Dongfang Cangpin Culture Development Co., Ltd.         | PRC                           |
| Zhongcang Warehouse Co., Ltd. (1)                            | PRC                           |
| Beijing Jiu Yu Ling Jing Technology Co., Ltd. (2)            | PRC                           |

(1) Kashi Longrui Business Management Services Co., Ltd. owns 18% of Zhongcang Warehouse Co., Ltd.

(2) Jiangsu Yanggu Culture Development Co., Ltd. acquired 11.875% equity interest of Beijing Jiu Yu Ling Jing Technology Co., Ltd. in March 2022.

**Certification by the Principal Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Yi Shao, certify that:

1. I have reviewed this annual report on Form 20-F of Oriental Culture Holding LTD. (the “Company”);
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 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)) 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 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: May 1, 2023

By: /s/ Yi Shao

Name: Yi Shao

Title: Chief Executive Officer



**Certification by the Principal Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Xi Li, certify that:

1. I have reviewed this annual report on Form 20-F of Oriental Culture Holding LTD. (the “Company”);
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 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)) 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 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: May 1, 2023

By: /s/ Xi Li

Name: Xi Li

Title: Chief Financial Officer

**Certification by the Principal Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Oriental Culture Holding LTD. (the "Company") on Form 20-F for the year ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yi Shao, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 1, 2023

By: /s/ Yi Shao

Name: Yi Shao

Title: Chief Executive Officer

**Certification by the Principal Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Oriental Culture Holding LTD. (the "Company") on Form 20-F for the year ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Xi Li, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 1, 2023

By: /s/ Xi Li  
Name: Xi Li  
Title: Chief Financial Officer

**Jiangsu Taikun Law Firm**

4/F, Building C, Shi Mao Cheng Pin  
International Plaza, 62 An De Men Street,  
Nanjing 210002, P. R. China

**Re: Consent Letter on Oriental Culture Holding, LTD. Form 20-F**

We act as the PRC counsel to Oriental Culture Holding, LTD. (the "*Company*"), a company incorporated under the laws of the Cayman Islands, in connection with the Company's annual report on Form 20-F.

We hereby consent to the use of our firm's name and summaries of our firm's opinions under the headings of "ITEM 3. Key Information", "ITEM 4. Information On The Company" and "ITEM 19 Exhibits" - Exhibit No.15.1 in the annual report on Form 20-F of the Company for the year ended December 31, 2022 to be filed with the U.S. Securities and Exchange Commission (the "*SEC*") on May 1, 2023 (the "*Form 20-F*").

We also hereby consent to the filing of this consent letter as an exhibit to the Form 20-F.

In giving such consent, we do not thereby admit that we fall within the category of the person whose consent is required under Section 7 of the U.S. Securities Act of 1933, as amended, or the regulation promulgated thereunder.

Sincerely yours,

/s/ Jiangsu Taikun Law Firm

May 1, 2023

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-262278) and on Form F-3 (File No. 333-262398) of our report dated May 1, 2023, with respect to the consolidated financial statements of Oriental Culture Holding LTD., which appears in this Annual Report on Form 20-F.

/s/ Wei, Wei & Co., LLP

Flushing, New York

May 1, 2023







[www.ocgroup.hk](http://www.ocgroup.hk)





ORIENTAL CULTURE HOLDING LTD 東方文化控股有限公司

Annual Report 2022 年報