

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Puhui Wealth Investment Management Co., Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Puhui Wealth Investment Management Co., Ltd. and its subsidiaries (collectively, the “Company”) as of June 30, 2020 and 2019, and the related consolidated statements of operations and comprehensive loss, changes in equity and cash flows for each of the three years in the period ended June 30, 2020, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2020, 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 audits 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 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 statement. We believe that our audits provide a reasonable basis for our opinion.

/s/ Friedman LLP

New York, New York
October 30, 2020

We have served as the Company’s auditor since 2017.

PUHUI WEALTH INVESTMENT MANAGEMENT CO., LTD AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 744,436	\$ 2,004,625
Short-term investments	515,729	706,226
Accounts receivables	454,411	1,853,041
Accounts receivables - related parties	1,138,498	1,013,135
Other receivables	100,302	213,252
Other receivables - related party	1,284,676	1,647,858
Prepaid expenses	1,122,164	1,278,133
Total current assets	<u>5,360,216</u>	<u>8,716,270</u>
PROPERTY AND EQUIPMENT, NET	<u>436,325</u>	<u>223,385</u>
OTHER ASSETS		
Long-term security deposits	422,783	384,860
Acquisition prepayment	-	2,447,259
Right-of-use assets	1,285,145	-
Long-term prepaid expenses	1,599,647	2,247,872
Deferred tax assets, net	159,720	347,195
Intangible asset, net	918,787	10,241
Goodwill	1,864,053	-
Total other assets	<u>6,250,135</u>	<u>5,437,427</u>
Total assets	<u>\$ 12,046,676</u>	<u>\$ 14,377,082</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Acquisition payable	\$ 368,439	\$ -
Deferred revenue	1,061,162	227,622
Other payables and accrued liabilities	630,457	808,328
Other payables - related party	6,334	-
Operating lease liabilities - current	841,041	-
Financing lease liabilities - current	44,791	-
Taxes payable	86,656	10,512
Current portion of long-term debt	25,835	315,983
Total current liabilities	<u>3,064,715</u>	<u>1,362,445</u>
NON-CURRENT LIABILITIES		
Operating lease liabilities - noncurrent	486,970	-
Financing lease liabilities - noncurrent	68,826	-
Long-term debt	1,145,825	1,206,565
Total non-current liabilities	<u>1,701,621</u>	<u>1,206,565</u>
Total liabilities	<u>4,766,336</u>	<u>2,569,010</u>
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Preferred shares, \$0.001 par value, 1,000,000 shares authorized, 0 shares issued and outstanding as of June 30, 2020 and June 30, 2019	-	-
Ordinary shares, \$0.001 par value, 49,000,000 shares authorized, 11,507,558 shares issued and outstanding as of June 30, 2020 and June 30, 2019	11,508	11,508
Additional paid-in capital	21,911,045	21,911,045
Accumulated deficit	(13,267,289)	(9,221,341)
Accumulated other comprehensive loss	(83,012)	(251,958)
Total equity attributable to controlling shareholders	<u>8,572,252</u>	<u>12,449,254</u>
Noncontrolling interest	(1,291,912)	(641,182)
Total equity	<u>7,280,340</u>	<u>11,808,072</u>
Total liabilities and equity	<u>\$ 12,046,676</u>	<u>\$ 14,377,082</u>

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

PUHUI WEALTH INVESTMENT MANAGEMENT CO., LTD AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the Years Ended June 30,		
	2020	2019	2018
REVENUES			
Revenues	\$ 1,481,980	\$ 3,052,371	\$ 2,794,385
Revenues - related parties	697,500	128,263	1,344,796
Total revenues	<u>2,179,480</u>	<u>3,180,634</u>	<u>4,139,181</u>
OPERATING EXPENSES			
Cost of revenues	(202,637)	(316,718)	(367,548)
Selling expenses	(1,517,968)	(2,005,367)	(1,500,572)
General and administrative expenses	(4,977,537)	(3,427,040)	(1,967,294)
Total operating expenses	<u>(6,698,142)</u>	<u>(5,749,125)</u>	<u>(3,835,414)</u>
LOSS FROM OPERATIONS	<u>(4,518,662)</u>	<u>(2,568,491)</u>	<u>303,767</u>
OTHER INCOME (EXPENSES)			
Interest income	74,824	62,967	11,526
Other finance expenses	(191,238)	(206,081)	(128,112)
Other income, net	126,858	808	86,966
Total other income (expenses), net	<u>10,444</u>	<u>(142,306)</u>	<u>(29,620)</u>
LOSS BEFORE INCOME TAXES	<u>(4,508,218)</u>	<u>(2,710,797)</u>	<u>274,147</u>
PROVISION FOR INCOME TAXES			
Current	-	11,803	298,935
Deferred	179,449	380,302	(150,615)
Total income tax provision	<u>179,449</u>	<u>392,105</u>	<u>148,320</u>
NET LOSS	<u>(4,687,667)</u>	<u>(3,102,902)</u>	<u>125,827</u>
Less: Net loss attributable to noncontrolling interest	(641,719)	(645,716)	(349,519)
NET LOSS ATTRIBUTABLE TO PUHUI WEALTH	<u>\$ (4,045,948)</u>	<u>\$ (2,457,186)</u>	<u>\$ 475,346</u>
NET LOSS	<u>\$ (4,687,667)</u>	<u>\$ (3,102,902)</u>	<u>\$ 125,827</u>
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	159,935	(271,194)	(34,199)
COMPREHENSIVE LOSS	<u>\$ (4,527,732)</u>	<u>\$ (3,374,096)</u>	<u>\$ 91,628</u>
Less: Comprehensive loss attributable to noncontrolling interest	(650,730)	(672,272)	(350,314)
COMPREHENSIVE LOSS ATTRIBUTABLE TO PUHUI WELATH	<u>\$ (3,877,002)</u>	<u>\$ (2,701,824)</u>	<u>\$ 441,942</u>
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES			
Basic and diluted	<u>11,507,558</u>	<u>10,793,017</u>	<u>10,000,000</u>
EARNINGS PER SHARE			
Basic and diluted	<u>\$ (0.35)</u>	<u>\$ (0.23)</u>	<u>\$ 0.05</u>

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

PUHUI WEALTH INVESTMENT MANAGEMENT CO., LTD AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<u>Preferred shares</u>		<u>Ordinary Shares</u>		<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Noncontrolling interest</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>	<u>Shares</u>	<u>Par Value</u>					
BALANCE, June 30, 2017	-	\$ -	10,000,000	\$ 10,000	\$ 8,491,241	\$ (7,239,501)	\$ 26,084	\$ -	\$ 1,287,824
Capital contribution from controlling shareholders	-	-	-	-	3,957,752	-	-	-	3,957,752
Capital contribution from noncontrolling shareholders	-	-	-	-	2,164,126	-	-	347,801	2,511,927
Net income (loss) for the period	-	-	-	-	-	475,346	-	(349,519)	125,827
Foreign currency translation loss	-	-	-	-	-	-	(33,404)	(795)	(34,199)
BALANCE, June 30, 2018	-	-	10,000,000	10,000	14,613,119	(6,764,155)	(7,320)	(2,513)	7,849,131
Issuance of ordinary share through Initial public offering, net	-	-	1,507,558	1,508	7,297,926	-	-	-	7,299,434
Disposal of subsidiary	-	-	-	-	-	-	-	33,603	33,603
Net loss for the period	-	-	-	-	-	(2,457,186)	-	(645,716)	(3,102,902)
Foreign currency translation loss	-	-	-	-	-	-	(244,638)	(26,556)	(271,194)
BALANCE, June 30, 2019	-	-	11,507,558	11,508	21,911,045	(9,221,341)	(251,958)	(641,182)	11,808,072
Net loss for the period	-	-	-	-	-	(4,045,948)	-	(641,719)	(4,687,667)
Foreign currency translation loss	-	-	-	-	-	-	168,946	(9,011)	159,935
BALANCE, June 30, 2020	-	\$ -	11,507,558	\$ 11,508	\$21,911,045	\$ (13,267,289)	\$ (83,012)	\$ (1,291,912)	\$ 7,280,340

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

PUHUI WEALTH INVESTMENT MANAGEMENT CO., LTD AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	\$ (4,687,667)	\$ (3,102,902)	\$ 125,827
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation and amortization	269,812	135,939	78,514
Amortization of operating lease right-of-use assets	795,912	-	-
Loss on disposal of property and equipment	-	78	280
Impairment loss on equity securities	-	5,628	78,984
Loss from disposal of subsidiaries	-	32,641	-
Gain from disposal of marketable securities	(5,271)	-	-
Loss from equity method investment	3,547	-	-
Deferred tax provision (benefits)	179,449	380,302	(150,615)
Change in operating assets and liabilities			
Accounts receivables	1,356,454	(242,674)	(1,332,431)
Accounts receivables - related parties	(155,986)	-	(1,070,648)
Other receivables	93,383	(402,174)	114,479
Prepaid expenses	60,961	(932,928)	(139,496)
Long-term prepaid expenses	644,554	(2,248,912)	-
Accounts payable	(1,413)	-	-
Deferred revenue	847,265	(298,954)	1,277,528
Other payables and accrued liabilities	41,609	156,724	177,776
Other payables - related parties	6,384	(190,666)	199,834
Operating lease liabilities	(752,682)	-	-
Taxes payable	165,353	(426,597)	319,696
Net cash used in operating activities	<u>(1,138,336)</u>	<u>(7,134,495)</u>	<u>(320,272)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of short-term investments	178,237	365,462	-
Purchases of short-term investments	(1,425)	(24,347)	(1,913,794)
Loans receivable to related party	-	(1,661,514)	-
Repayment from related parties	318,194	-	-
Acquisition prepayment	-	(2,042,460)	-
Purchases of property and equipment	(288,372)	(159,514)	(132,998)
Proceeds from sale of property and equipment	-	990	3,536
Cash acquired from Granville, net of purchase price paid	125,365	-	-
Purchase of intangible asset	-	(12,644)	-
Net cash provided by (used in) investing activities	<u>331,999</u>	<u>(3,534,027)</u>	<u>(2,043,256)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of deferred offering costs	-	-	(712,696)
Payment of acquisition deposit	-	-	(424,263)
Capital contribution from shareholders	-	-	6,469,679
Proceeds from issuance of ordinary shares through IPO, net	-	8,032,912	-
Proceeds from long-term debt	-	-	1,537,184
Financing lease liabilities	(24,984)	-	-
Principal payments of long-term debt	(309,450)	-	-
Net cash (used in) provided by financing activities	<u>(334,434)</u>	<u>8,032,912</u>	<u>6,869,904</u>
EFFECT OF EXCHANGE RATE ON CASH	<u>(119,418)</u>	<u>(168,805)</u>	<u>(19,854)</u>
INCREASE IN CASH	(1,260,189)	(2,804,415)	4,486,522
CASH, beginning of year	<u>2,004,625</u>	<u>4,809,040</u>	<u>322,518</u>
CASH, end of year	<u>\$ 744,436</u>	<u>\$ 2,004,625</u>	<u>\$ 4,809,040</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for income tax	<u>\$ -</u>	<u>\$ 240,508</u>	<u>\$ 27,722</u>
Cash paid for interest	<u>\$ 192,312</u>	<u>\$ 197,999</u>	<u>\$ -</u>
NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES			
Fair value adjustment offsetting customer deposits with short-term investment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 713,568</u>
Prepaid IPO costs to be net against IPO proceeds	<u>\$ -</u>	<u>\$ 733,478</u>	<u>\$ -</u>
Initial recognition of right-of-use assets and lease liabilities	<u>\$ 2,091,977</u>	<u>\$ -</u>	<u>\$ -</u>
Acquisition of Granville offset with prepayment	<u>\$ 2,447,259</u>	<u>\$ -</u>	<u>\$ -</u>

Acquisition of Granville with payables	\$ 368,439	\$ -	\$ -
Purchase of fixed asset with financing lease	\$ 139,566	\$ -	\$ -

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

Note 1 – Nature of business and organization

Puhui Wealth Investment Management Co., Ltd. (“Puhui Cayman” or the “Company”) is a limited company incorporated on November 30, 2017 under the laws of the Cayman Islands.

PCZ Limited (“Puhui BVI”) is a wholly-owned subsidiary of Puhui Cayman established under the laws of the British Virgin Islands on December 6, 2017. HZF (HK) Limited (“Puhui HK”) is a wholly-owned subsidiary of Puhui BVI established in Hong Kong on December 18, 2017. Beijing Rucong Enterprise Management and Advisory Co., Ltd. (“Rucong” or “Puhui WFOE”) is a wholly-owned subsidiary of Puhui HK established on January 30, 2018 under the laws of the People’s Republic of China (“PRC” or “China”).

The Company, through its variable interest entity (“VIE”), Puhui Wealth Investment Management (Beijing) Co. Ltd. (“Puhui Beijing”), and its subsidiaries and VIEs, are engaged in providing investment advisory services and private equity fund management to high-net-worth individuals and enterprises in China.

Puhui Beijing’s main business is providing financial products and advisory services of its own to high-net-worth clients and has also developed an in-house asset management business through its wholly owned subsidiaries, Qingdao Puhui Zhuoyue Investment management Co., Ltd. (“Qingdao Puhui”) and Shanghai Pucai Investment Management Co., Ltd. (“Shanghai Pucai”). The Company also has other majority owned subsidiaries for its advisory services where the Company partners with other entities. The Company’s headquarters are located in Beijing, China.

On January 30, 2018, Puhui Cayman completed a reorganization of entities under common control of its five shareholders, who collectively owned a majority of the equity interests of Puhui Cayman prior to the reorganization. Puhui Cayman, Puhui BVI, and Puhui HK were established as the holding companies of Puhui WFOE. Puhui WFOE is the primary beneficiary of Puhui Beijing and its subsidiaries, and all of these entities included in Puhui Cayman are under common control which results in the consolidation of Puhui Beijing and subsidiaries which have been accounted for as a reorganization of entities under common control at carrying value. 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 Puhui Cayman.

On December 3, 2019, Puhui Cayman acquired 100% of the shares of Granville Financial Services Company Limited (“Granville”) for HK\$29,390,000 or approximately \$3.8 million. The purpose of this acquisition of Granville is to expand the Company’s operations outside of Mainland China and to take advantage of their financial qualifications and licenses to broaden the Company’s existing product portfolio.

In January 2020, a novel strain of coronavirus, or COVID-19, surfaced and it has spread rapidly to many parts of China and other parts of the world. The pandemic has resulted in quarantines, travel restrictions, and the temporary closure of stores and facilities in China and elsewhere. Substantially all of the Company’s revenue is concentrated in China. Consequently, the COVID-19 pandemic affected the Company’s business operations, financial condition and operating results for second half of fiscal year 2020, including but not limited to negative impact on the Company’s total revenues, gross profit and net income. As the pandemic is largely under control in China, the Company’s operations resumed in June of 2020. However, any potential impacts to future our operating results will depend on, to a large extent, future outbreak and new information that may emerge regarding the duration and severity of the COVID-19 and the actions taken by our government authorities and other entities to contain the COVID-19 or treat its impact, almost all of which are beyond our control.

The accompanying consolidated financial statements include the activities of the Company and each of the following entities:

Name	Background	Ownership
<i>Subsidiaries</i>		
Puhui BVI	<ul style="list-style-type: none"> • A British Virgin Islands company • Incorporated on December 6, 2017 	100%
Puhui HK	<ul style="list-style-type: none"> • A Hong Kong company • Incorporated on December 18, 2017 	100% owned by Puhui BVI
Puhui WFOE	<ul style="list-style-type: none"> • A PRC limited liability company and a deemed wholly foreign owned enterprise (“WFOE”) • Incorporated on January 30, 2018 • Registered capital of \$10 million, to be fully funded by January 2040 	100% owned by Puhui HK
Granville Financial Services Company Limited (“Granville”)	<ul style="list-style-type: none"> • A Hong Kong company • Incorporated on December 1, 2016 	100% owned by Puhui Cayman Acquired on December 3, 2019
<i>VIE and subsidiaries of VIE</i>		
Puhui Beijing **	<ul style="list-style-type: none"> • A PRC limited liability company • Incorporated on September 24, 2013 • Registered capital of \$8,501,241 (RMB 53,000,000) 	VIE of Puhui WFOE
Qingdao Puhui *	<ul style="list-style-type: none"> • A PRC limited liability company • The Company’s wholly owned subsidiary • Incorporated on October 29, 2015 • Registered capital of \$781,115 (RMB 5,000,000) 	100% owned by Puhui Beijing
Shanghai Pucai	<ul style="list-style-type: none"> • A PRC limited liability company • The Company’s wholly owned subsidiary • Incorporated on July 8, 2014 • Registered capital of \$818,170 (RMB 5,000,000) 	100% owned by Puhui Beijing
Beijing Pusheng	<ul style="list-style-type: none"> • A PRC limited liability company • The Company’s wholly owned subsidiary • Incorporated on March 19, 2018 • Registered capital of \$1,579,255 (RMB 10,000,000) to be fully funded by January 1, 2040 • No operations 	100% owned by Puhui Beijing Disposed in January 2019***
Shanghai Ruyue	<ul style="list-style-type: none"> • A PRC limited liability company • The Company’s wholly owned subsidiary • Incorporated on April 27, 2017 • Registered capital of \$1,449,260 (RMB 10,000,000) to be fully funded by March 29, 2037 	100% owned by Puhui Beijing

Beijing Haidai Puhui Information Consulting Co. Ltd. (“Beijing Haidai”)	<ul style="list-style-type: none"> ● A PRC limited liability company ● Incorporated on May 30, 2018 ● Registered capital of \$15,634,038 (RMB 100,000,000) to be fully funded by December 31, 2040 	57% owned by Puhui Beijing
Beijing Ruchang Management Consulting Co., Ltd. (“Beijing Ruchang”) formerly known as Beijing RuyueHaipeng Consulting Co., Ltd.	<ul style="list-style-type: none"> ● A PRC limited liability company ● Incorporated on June 23, 2017 ● Registered capital of \$243,697 (RMB 1,666,666) to be fully funded by January 1, 2040 	60% owned by Shanghai Ruyue
Shanghai Hengshi Business Consulting Co., Ltd. (“Shanghai Hengshi”)	<ul style="list-style-type: none"> ● A PRC limited liability company ● Incorporated on July 21, 2017 ● Registered capital of \$49,244 (RMB 333,333) of which \$19,698 (RMB 133,333) to be fully funded by May 21, 2030 and \$29,546 (RMB 200,000) to be fully funded by April 21, 2037 	60% owned by Shanghai Ruyue Disposed in June 2019***
Shanghai Shengshi Enterprise Management Consulting Co., Ltd. (“Shanghai Shengshi”)	<ul style="list-style-type: none"> ● A PRC limited liability company ● Incorporated on August 15, 2017 ● Registered capital of \$249,576 (RMB 1,666,666) to be fully funded by August 14, 2037 	60% owned by Shanghai Ruyue
Beijing Puhui Shanying Management Consulting Co., Ltd. (“Beijing Shanying”)	<ul style="list-style-type: none"> ● A PRC limited liability company ● Incorporated on September 5, 2017 ● Registered capital of \$76,311 (RMB 500,000) to be fully funded by January 1, 2040 	60% owned by Shanghai Ruyue
Beijing RuyueJiahe Management Consulting Co., Ltd. (“Beijing Jiahe”)	<ul style="list-style-type: none"> ● A PRC limited liability company ● Incorporated on July 14, 2017 ● Registered capital of \$343,962 (RMB 2,333,333) to be fully funded by January 1, 2040 	60% owned by Shanghai Ruyue
Beijing Zhangpuji Management Consulting Co., Ltd. (“Beijing Zhangpuji”)	<ul style="list-style-type: none"> ● A PRC limited liability company ● Incorporated on September 15, 2017 ● Registered capital of \$30,564 (RMB 200,000) to be fully funded by January 1, 2040 ● No operations 	50% owned by Shanghai Ruyue Disposed in May 2019***
Shanghai Junshen Enterprise Management Consulting Co., Ltd. (“Shanghai Junshen”)	<ul style="list-style-type: none"> ● A PRC limited partnership ● Incorporated on July 17, 2019 ● Registered capital of \$72,650 (RMB 500,000) to be fully funded by June 30, 2038 	70% owned by Shanghai Ruyue Disposed in June 2020****

Beijing Fenghui Management Consulting Co., Ltd. (“Beijing Fenghui”)	<ul style="list-style-type: none"> • A PRC limited liability company • Incorporated on October 23, 2017 • Registered capital of \$75,326 (RMB 500,000) to be fully funded by January 1, 2040 	51% owned by Beijing Jiahe
Beijing LingshengChuangyuan Management Consulting Co., Ltd. (“Beijing Lingsheng”)	<ul style="list-style-type: none"> • A PRC limited liability company • Incorporated on January 22, 2018 • Registered capital of \$78,059 (RMB 500,000) to be fully funded by January 1, 2040 	51% owned by Beijing Jiahe
Suzhou Shanghui Management Consulting Co., Ltd. (“Suzhou Shanghui”)	<ul style="list-style-type: none"> • A PRC limited liability company • Incorporated on March 13, 2018 • Registered capital of \$79,076(RMB 500,000) to be fully funded by February 28, 2048 	70% owned by Beijing Fenghui
Beijing Puhui Ruihe Management Consulting Co., Ltd. (“Puhui Ruihe”)	<ul style="list-style-type: none"> • A PRC limited partnership • Incorporated on June 26, 2018 • Registered capital of \$75,996 (RMB 500,000) to be fully funded by January 1, 2040 	70% owned by Beijing Lingsheng
Beijing Hongsheng Management Consulting Co., Ltd. (“Beijing Hongsheng”)	<ul style="list-style-type: none"> • A PRC limited partnership • Incorporated on January 21, 2019 • Registered capital of \$73,775 (RMB 500,000) to be fully funded by December 31, 2040 	70% owned by Beijing Lingsheng Dissolved in March 2020****

*Qingdao Puhui is a general partner in ten limited partnerships it set up with registered capital of RMB1.0 million. The purpose of these limited partnerships is to raise capital from investors and transform these limited partnerships into investment funds for fund management business. Upon establishment, Qingdao Puhui is deemed to be the primary beneficiary thus consolidates these limited partnerships as it acts as the only general partner and one Vice President of the Company acts as the only limited partner. Once investors have been admitted as the new partners with agreed capital injection, these limited partners will file their status with the PRC authority in accordance with the rules and regulations on investment funds in China, and therefore obtain the qualification to officially start business as an investment fund in China. Upon filing of the investment fund status, the Company reassesses its interests in these limited partnerships and determines if it would continue to consolidate or deconsolidate these limited partnerships in accordance with the requirements ASU 2015-02. As of June 30, 2020, three out of the ten limited partnerships have been registered as investment funds and are in operations, including Beijing Ruying Consulting Center (LP), Xinyu Jiji and Xinyu Yuanyuan. Those limited partnerships are not consolidated in the Company’s consolidated financial statements. The other seven limited partnerships have no activities as of June 30, 2020 other than initial set up fees incurred. See Note 2 for consolidation policies.

** Puhui Beijing was a general partner in two limited partnerships, Beijing Jiongheng Management Consulting Center (Limited Partnership) (“Beijing Jiongheng”) and Beijing Jiongying Management Consulting Center (Limited Partnership) (“Beijing Jiongying”). By following similar evaluation as above, these two limited partnerships were considered as VIEs of Puhui Beijing. These two partnerships were dissolved in January 2019 and there has been no activity as of the date of dissolution.

***The Company disposed of Beijing Pusheng, Shanghai Hengshi, and Beijing Zhangpuji during January through June of 2019, resulting in a loss from disposal of subsidiaries of approximately \$33,000. As the disposal of these entities does not represent strategic change according with ASC 360, the Company did not report such disposals as discontinued operations.

****The Company disposed of Beijing Hongsheng in March 2020 and Shanghai Junshen in June 2020. No gain or loss from these disposals was recognized.

Contractual Arrangements

In the PRC, investment activities by foreign investors are principally governed by the Guidance Catalog of Industries for Foreign Investment, or the Catalog, which was promulgated and is amended from time to time by the PRC Ministry of Commerce, or MOFCOM, and the PRC National Development and Reform Commission, or NDRC. The Catalog divides industries into three categories: encouraged, restricted and prohibited. Industries not listed in the Catalog are generally open to foreign investment unless specifically restricted by other PRC regulations. However, the provision of market surveys business by foreign-invested enterprises is currently restricted. Since the Company and Puhui WFOE (its PRC subsidiary) are both considered as foreign investors or foreign invested enterprises under PRC law, the Company conducts the majority of its activities in PRC through its consolidated VIE, Puhui Beijing, in order to comply with the aforementioned regulations. As such, Puhui Beijing is controlled through contractual arrangements in lieu of direct equity ownership by the Company or any of its subsidiaries.

Such contractual arrangements are a series of five agreements (collectively the “Contractual Arrangements”) including a Technical Consultation and Services Agreement, a Business Cooperation Agreement, an Equity Option Agreements, a Pledge Agreement, and a Voting Rights Proxy and Financial Supporting Agreement. These contractual agreements obligate Puhui WFOE to absorb a majority of the risk of loss from Puhui Beijing’s activities and entitle Puhui WFOE to receive a majority of their residual returns. In essence, Puhui WFOE has gained effective control over Puhui Beijing. Therefore, the Company believes that Puhui Beijing should be considered as a Variable Interest Entity (“VIE”) under the Statement of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810 “Consolidation”. Accordingly, the accounts of Puhui Beijing are consolidated with those of Puhui WFOE and ultimately are consolidated into those of Puhui Cayman.

The significant terms of the Contractual Arrangements are as follows:

Technical Consultation and Services Agreement

Pursuant to the exclusive technical consultation and services agreement and the exclusive business cooperation agreement between Puhui WFOE and Puhui Beijing, Puhui WFOE is engaged as exclusive provider of management consulting services to Puhui Beijing in the area of fund management, human resources, technology and intellectual property rights. For such services, Puhui Beijing agrees to pay service fees such as an annual fee in amounts equal to 90.2077% of Puhui Beijing’s net income and also has the obligation to absorb 90.2077% of Puhui Beijing’s losses.

The technical consultation and services agreement remains in effect for 20 years from the date when the agreement was signed. The technical consultation and services agreement can be extended only if Puhui WFOE gives its written consent of extension of the agreement before the expiration of the agreement and Puhui Beijing shall agree to the extension without reserve.

Business Cooperation Agreement

Pursuant to the business cooperation agreement between Puhui WFOE and Puhui Beijing, Puhui WFOE has the exclusive right to provide Puhui Beijing with technical support, business support and related consulting services including but not limited to technical services, business consultations, equipment or property leasing, marketing consultancy, system integration, product research and development, and system maintenance. In exchange, Puhui WFOE is entitled to a service fee that equals 90.2077% of the net income of Puhui Beijing determined under U.S. GAAP. The service fees may be adjusted based on the services rendered by Puhui WFOE in that specific month and the operational needs of Puhui Beijing.

The Business Cooperation Agreement shall remain effective unless it is terminated or is compelled to terminate under applicable PRC laws and regulations. Puhui WFOE may terminate this Business Cooperation Agreement at any time by giving 30 days' prior written notice to Puhui Beijing.

Equity Option Agreements

Pursuant to the exclusive equity option agreement between the shareholders who collectively owned 90.2077% of Puhui Beijing (the "Participating Shareholders") and Puhui WFOE, the Participating Shareholders jointly and severally grant Puhui WFOE an option to purchase their equity interests in Puhui Beijing. The purchase price shall be the lowest price then permitted under applicable PRC laws. If the purchase price is greater than the registered capital of Puhui Beijing, the Participating Shareholders of Puhui Beijing are required to immediately return any amount in excess of the registered capital to Puhui WFOE or its designee of Puhui WFOE. Puhui WFOE may exercise such option at any time until it has acquired all equity interests of Puhui Beijing, and freely transfer the option to any third party. The agreement will terminate at the date on which all of the Participating Shareholders' equity interests of Puhui Beijing has been transferred to Puhui WFOE or its designee.

Pledge Agreements

Pursuant to the equity pledge agreement between the Participating Shareholders and Puhui WFOE, such Participating shareholders pledge 90.2077% of their equity interests in Puhui Beijing to Puhui WFOE as collateral to secure the obligations of Puhui Beijing under the exclusive consulting services and operating agreement. The Participating Shareholders may not transfer or assign transfer or assign the pledged equity interests, or incur or allow any encumbrance that would jeopardize Puhui WFOE's interests, without Puhui WFOE's prior approval. In the event of default, Puhui WFOE as the pledgee will be entitled to certain rights and entitlements, including the priority in receiving payments by the evaluation or proceeds from the auction or sale of whole or part of the pledged equity interests of Puhui Beijing. The agreement will terminate at the date the Participating Shareholders have transferred all of their pledged equity interests pursuant to the equity option agreement.

Voting Rights Proxy and Financial Supporting Agreements

Pursuant to the voting rights proxy and financial supporting agreement between the Participating Shareholders and Puhui WFOE, the Participating Shareholders have given Puhui WFOE an irrevocable proxy to act on their behalf on all matters pertaining to Puhui Beijing and to exercise all of their rights as shareholders of Puhui Beijing, including the right to attend shareholders meeting, to exercise voting rights and to transfer all or a part of their equity interests in Puhui Beijing. In consideration of such granted rights, Puhui WFOE agrees to provide the necessary financial support to Puhui Beijing whether or not Puhui Beijing incurs loss, and agrees not to request repayment if Puhui Beijing is unable to do so. The agreement shall remain in effect for 20 years from the date when the agreement was signed.

Note 2 – Summary of significant accounting policies

Basis of presentation

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

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power or has the power to: govern the financial and operating policies; appoint or remove the majority of the members of the board of directors; cast a majority of votes at the meeting of the board of directors.

U.S. GAAP provides guidance on the identification of VIE and financial reporting for entities over which control is achieved through means other than voting interests. The Company evaluates each of its interests in an entity to determine whether or not the investee is a VIE and, if so, whether the Company is the primary beneficiary of such VIE. In determining whether the Company is the primary beneficiary, the Company considers if the Company (1) has power to direct the activities that most significantly affects the economic performance of the VIE, and (2) receives the economic benefits of the VIE that could be significant to the VIE. If deemed the primary beneficiary, the Company consolidates the VIE. The Company has determined that Puhui Beijing is a VIE subject to consolidation and Puhui Cayman is the primary beneficiary.

In February 2015, the FASB issued Accounting Standards Update (“ASU”) 2015-02, “Amendments to the Consolidation Analysis”. The guidance amends the current consolidation guidance and ends the deferral granted to investment companies from applying the VIE guidance. The revised consolidation guidance, among other things, (i) modifies the evaluation of whether limited partnerships and similar legal entities are VIEs, (ii) eliminated the presumption that a general partner should consolidate a limited partnership, and (iii) modifies the consolidation analysis of reporting entities that are involved with VIEs through fee arrangements and related party relationships.

Under ASU 2015-02, the service fees the Company earns, including carried interest earned in the capacity of general partner or fund manager, are commensurate with the level of effort required to provide such services and are at arm’s length and therefore are not deemed as variable interests.

The Company evaluates its variable interest in each of the limited partnerships upon establishment, and re-evaluates its variable interest in these limited partnerships after funds are received from new limited partners and the investment funds are officially formed in accordance with the rules and regulations in China.

To evaluate whether the investment funds in the legal form of limited partnerships the Company managed as general partner are VIEs or not, the Company firstly assessed whether a simple majority or lower threshold of limited partnership interests, excluding interests held by the general partner, parties under common control of the general partner, or parties acting on behalf of the general partner, have substantive kick-out rights or participating rights. If such rights exist, the limited partnership is not deemed as a VIE and no further analysis will be performed. If it’s assessed to be a VIE, the Company further assesses whether there is any interest that may constitute a variable interest.

In September 2019, the Company set up an investment fund named Xinyu Yuanyuan Investment Center (Limited Partnership) (“Xinyu Yuanyuan”) with planned initial capital of RMB 30,000,000 (approximately \$4.3 million) where Qingdao Puhui is a general partner. As the general partner of this fund, Qingdao Puhui has the authority to make investment decisions mainly to develop, manage and market financial products for Xinyu Yuanyuan. As of June 30, 2020, Qingdao Puhui owns 0.07% interest of this fund, as such the Company is not deemed a primary beneficiary of Xinyu Yuanyuan as the general partner is not obligated to absorb its losses or receive benefits that could potentially be significant to the entity. Therefore, Xinyu Yuanyuan is not consolidated but accounted for in accordance with ASC Topic 321.

Liquidity

In January 2020, a novel strain of coronavirus, or COVID-19, surfaced and it has spread rapidly to many parts of China and eventually all over the world. The pandemic has resulted in quarantines, travel restrictions, and the temporary closure of stores and facilities in China and elsewhere. Substantially all of our revenue is concentrated in China. Consequently, the COVID-19 pandemic affected our business operations, financial condition and operating results for second half of fiscal year 2020 (especially from January to May 2020), including but not limited to negative impact on the Company’s total revenues, gross profit, net income and cash flows. As the COVID-19 pandemic is largely under control in China, the Company’s operations resumed in June 2020.

In assessing the Company’s liquidity, the Company monitors and analyzed its cash on-hand and its operating and capital expenditure commitments. As of June 30, 2020, the Company’s working capital was approximately \$2.3 million and the Company had cash of approximately \$0.7 million. Also, the Company has approximately \$1.1 million deferred revenue which it expects to realize as does not expect to make any significant refund based on historical experience. The Company renewed its loan agreements in October 2020 with lenders to extend the due date to December 31, 2021. This obligation was reclassified from current liabilities to long-term debt accordingly. Excluding deferred revenue, our working capital was approximately \$3.4 million. Although the Company incurred net loss of approximately \$4.7 million, its net operating cash outflow for the year was only approximately \$1.1 million.

Management believes that we will require a minimum of approximately \$1.0 million cash over the next twelve months to operate at our current level, either from revenues or funding. Based on our current revenue and expense projection, we believe we will generate at least the same amount of revenue in the coming year compared to the current year as the Company and China are both recovering from the impact of the pandemic. In addition, several investments made by the Company's managed funds are expected to be liquidated and we are entitled to additional performance bonus. If our revenue does not achieve its expected level, we will also be implementing cost saving measures to reduce our operating cash outflow. Furthermore, the Company's principal shareholder has committed to provide financial support to fund the Company's working capital needs whenever necessary.

If the Company is unable to realize its current assets within the normal operating cycle of a twelve month period, the Company will also consider supplementing its available sources of funds through the following sources:

- Security offering of approximately \$12 million expected to complete in December 2020; the Company filed its latest form F-3/A in October 2020 and has completed due diligence procedures with underwriters;
- other available sources of financing from PRC banks and other financial institutions;
- financial support and credit guarantee commitments from the Company's related parties.

Based on the above considerations, the Company's management is of the opinion that the Company has sufficient funds to meet its future liquidity and working capital requirements for at least twelve months from the date of this report.

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, but are not limited to, allowance for doubtful accounts, the useful lives of property and equipment, recoverability of long-lived assets, provision for income taxes, and valuation allowance of deferred tax assets. The inputs into the Company's judgments and estimates consider the economic implications of COVID-19 on the Company's critical and significant accounting estimates. Actual results could differ from these estimates.

Foreign currency translation and transaction

The reporting currency of the Company is the U.S. dollar. The Company in China 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. The statement of income accounts are translated at the average translation rates 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.

Translation adjustments included in accumulated other comprehensive loss amounted to \$83,012 and \$251,958 as of June 30, 2020 and June 30, 2019, respectively. The balance sheet amounts, with the exception of shareholders' equity at June 30, 2020 and June 30, 2019 were translated at RMB 7.08 and RMB 6.87 to \$1.00, respectively. The shareholders' equity accounts were stated at their historical rates. The average translation rates applied to statement of income accounts for the years ended June 30, 2020 and 2019 were RMB 7.02 and RMB 6.82, respectively. As the Company acquired Granville in December 2019, the balance sheet amounts with the exception of shareholders' equity of that entity were translated at 7.75 HKD to \$1.00. The average translation rate applied to statement of income accounts from December 1, 2019 to June 30, 2020 were translated at 7.77 HKD to \$1.00. Cash flows are also translated at average translation rates for the periods, therefore, amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

Revenue recognition

On July 1, 2018, the Company adopted ASC 606, Revenue from Contracts with Customers using the modified retrospective method for all contracts not completed as of the date of adoption.

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 adoption of ASC 606 did not significantly change (i) the timing and pattern of revenue recognition for all of the Group's revenue streams, and (ii) the presentation of revenue as gross versus net. Therefore, the adoption of ASC 606 did not have a significant impact on the Company's financial position, results of operations, equity or cash flows as of the adoption date and for the years ended June 30, 2020 and 2019.

Transaction Price Allocation

At times, the Company enters into contracts that provides wealth management advisory, recurring services and other services to funds that it serves as general partner/co-general partner or fund manager.

Each of the wealth management service, recurring service, and other service represent a separate performance obligation. The Company allocate the total consideration among various performance obligations at inception of contracts based on their relative stand-alone selling price ("SSP"). The Company has observable SSP for its wealth management marketing services and other services for certain products as it provides such services separately to other similar customers. The Company has not sold its recurring services separately. The Company adopts either the adjusted market assessment approach or the residual approach when the SSP is not directly observable and is either highly variable or uncertain. Revenue for the respective performance obligation is recognized in the same manner as described above.

One-time commissions

The Company enters into financial advisory service agreements with product providers, which specifies the key terms and conditions of the arrangement. Such agreements do not include rights of return, credits or discounts, rebates, price protection or other similar privileges. Upon establishment of a financial product, the Company earns a one-time commission from product providers, calculated as a percentage of the value of the financial products purchased by its clients. The Company defines the "establishment of a financial product" for its revenue recognition purpose as the time when both of the following two criteria are met: (1) the Company's client has entered into a purchase or subscription contract with the relevant product provider and, if required, the client has transferred a deposit to an escrow account designated by the product provider and (2) the product provider has issued a formal notice to confirm the establishment of financial product or loan issuance. Revenue is recorded upon the establishment of the financial product, when the provision of service concludes and the fee becomes fixed and determinable, assuming all other revenue recognition criteria have been met, and there are no future obligations or contingencies.

Subscription fees

A one-time subscription fee is charged on funds that the Company manages as stipulated in the fund agreement for fund formation services the Company provides and for distribution of products. These subscription fees are computed as a percentage of the investment received in the funds and recognized upon the establishment of the funds.

Recurring service fees

Recurring service fee arises from on-going services provided to product providers after the distribution of financial product including investment relationship maintenance and coordination and product reports distribution. It is calculated as a percentage of either the contribution received or daily asset value of investments in the financial products purchased by the Company's clients, calculated from the establishment date of the financial product. As the Company provides these services throughout the contract term, revenue is recognized over the contract term, assuming all other revenue recognition criteria have been met. Recurring service agreements do not include rights of return, credits or discounts, rebates, price protection or other similar privileges.

Recurring management fees

Recurring management fee arises from the fund management services provided to funds the Company manages. Management fees are computed as a percentage of the investment received in a fund per annum or a percentage of daily asset value and are recognized as earned over the specified contract period. Management fee received in advance of the specified contract period are recorded as deferred revenues. Management fees received in advance of the specified contract period are recorded as deferred revenues.

Performance-based income

In a typical arrangement in which the Company serves as fund manager or general partner, the Company is entitled to a performance-based fee or carried interest based on the extent by which the fund's investment performance exceeds a certain threshold at the end of the contract term. Such performance-based fee is typically calculated and distributed at the end of the contract term when the cumulative return of the fund can be determined, and is not subject to clawback provisions. The Company does not record any performance-based income until the end of the contract term. There was no performance based income received for the years ended June 30, 2020 and 2019.

Other service fees

Other service fees refer to revenue generated from consulting services provided to companies. Service fees are negotiated case by case and depends on the service the company provided.

Sales taxes: One-time commissions, recurring service fees, recurring management fees, and other service fees that are earned and received in the PRC are subject to a Chinese value-added tax ("VAT") at a rate of 3% to 6% of the gross proceeds or at a rate approved by the Chinese local government. One-time commissions, recurring service fees, recurring management fees, and other service fees that are earned and received in the PRC are also subject to various miscellaneous sales taxes at a rate of 7% of the VAT.

Cash

Cash consists of demand deposits placed with banks which are unrestricted as to withdrawal and use.

Accounts receivables (including related parties)

Accounts receivables represented accounts due from the Company's product providers. 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 bad debt allowance is adequate, and adjusts the allowance when necessary. Delinquent account balances are written-off against allowance for doubtful accounts after management has determined that the likelihood of collection is not probable. No allowance was required as of June 30, 2020 and 2019.

Investments

The Company records investments in equity securities at their fair value. Where readily determinable fair value is not available, the Company measures the investment by using the investment cost minus any impairment, if necessary plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. Gains or losses are realized when such investments are sold.

The Company reviews its investments, for other-than-temporary impairment based on the specific identification method and considers available quantitative and qualitative evidence in evaluating potential impairment. If the cost of an investment exceeds the investment's fair value, the Company considers, among other factors, general market conditions, government economic plans, the duration and the extent to which the fair value of the investment is less than cost and the Company's intent and ability to hold the investment to determine whether another-than-temporary impairment has occurred.

If the investment's fair value is less than the cost of an investment and the Company determines the impairment to be other-than-temporary, the Company recognizes an impairment loss based on the fair value of the investment. The Company recorded impairment loss of \$0 and \$5,628 for the years ended June 30, 2020 and 2019, respectively.

Investment in affiliates

Affiliated companies are entities over which the Company has significant influence but does not have control. The Company accounts for equity investments in affiliates using the equity method. Under this method, the Company's share of profits or losses of affiliated companies is recognized in the statements of operations. The Company generally considers an ownership interest of 20% or higher to represent significant influence.

The Company also considers whether it has control over or significant influence in the funds that it serves as general partner or fund manager, and the Company also hold equity interest in those funds to the extent the risk and return is deemed acceptable.

Equity interest of more than 3-5% has generally been viewed as more than minor so that may imply significant influence. These funds are not consolidated by the Company based on the facts that the Company is not the primary beneficiary of these funds, or substantive kick-out rights exist which are exercisable by a simple-majority of non-related limited partners of these funds to dissolve (liquidate) the funds or remove the Company as the general partner of the funds without cause. The equity method of accounting is accordingly used for investments by the Company in these funds.

Other receivables

Other receivables include non-trade related advances, such as employee advances, rental and other deposits. An allowance for doubtful accounts is established and recorded based on managements' assessment of potential losses based on the credit history and relationships with the parties. Management reviews its receivables on a regular basis to determine if the bad debt allowance is adequate, and adjusts the allowance when necessary. Delinquent account balances are written-off against allowance for doubtful accounts after management has determined that the likelihood of collection is not probable. No allowance was required as of June 30, 2020 and 2019.

Loans receivable – related party

Loans receivable – related party represent loans to Beijing Sipaike Customer Management Consulting Co., Ltd., which are due on demand and with 0.5% interest per month. Management regularly reviews the aging of receivables and changes in payment trends and records allowance when management believes collection of amounts due are at risk. Accounts considered uncollectable are written off against allowances after exhaustive efforts at collection are made. As of June 30, 2020, no allowance was deemed necessary.

Prepaid expenses

Prepaid expenses represented advance payments made to its vendors for certain services such as refundable deposits, insurance, consulting, communication, rent, and property management fee.

Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with a 0% - 5% residual value. The estimated useful lives are as follows:

	Useful Life
Office equipment and furnishing	3-5 years
Vehicle	4 years
Leasehold improvements	Shorter of the remaining lease terms or estimated useful lives

The cost and related accumulated depreciation 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 comprehensive loss. Expenditures for maintenance and repairs are charged to earnings as incurred, while additions, renewals and betterments, which are expected to extend the useful life of assets, are capitalized. The Company also re-evaluates the periods of depreciation to determine whether subsequent events and circumstances warrant revised estimates of useful lives.

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:

Classification	Estimated Useful Life
Software	5 years
Securities licenses	10 years

Securities licenses are Type 1 (Dealing in Securities), Type 2 (Dealing in Futures) and Type 9 (Asset Management) licenses issued by the Stock Exchange of Hong Kong Ltd and the Securities and Futures Commission of Hong Kong. These licenses enable the Company's subsidiary Granville to trade and deal with securities, futures and manage assets on behalf of customers in Hong Kong.

Business Combination

The purchase price of an acquired company is allocated between tangible and intangible assets acquired and liabilities assumed from the acquired business based on their estimated fair values. The excess of the purchase price over the fair value of the net identifiable assets of the acquired subsidiaries at the date of acquisition is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

Transaction costs associated with business combinations are expensed as incurred, and are included in general and administrative expenses in the Company's consolidated statements of operations. The results of operations of the acquired business are included in the Company's operating results from the date of acquisition.

Goodwill

Goodwill represents the excess of the consideration paid over the fair value of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill is not amortized and is tested for impairment at least annually, more often when circumstances indicate impairment may have occurred. If impairment exists, goodwill is immediately written off to its fair value and the loss is recognized in the consolidated statements of operations and comprehensive loss. Impairment losses on goodwill are not reversed.

The Company reviews the carrying value of intangible assets not subject to amortization, including goodwill, to determine whether impairment may exist annually or more frequently if events and circumstances indicate that it is more likely than not that an impairment has occurred. The Company has the option to assess qualitative factors to determine whether it is necessary to perform further impairment testing in accordance with ASC 350-20, as amended by ASU 2017-04. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, then the impairment test described below is required. The Company compares the fair values of each reporting unit to its carrying amount, including good will. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired. If the carrying amount of a reporting unit exceeds its fair value, impairment is recognized for the difference, limited to the amount of goodwill recognized for the reporting unit. Estimating fair value is performed by utilizing various valuation techniques, with the primary technique being a discounted cash flow.

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 assets based on the undiscounted future cash flows the assets are 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 would reduce the carrying amount of the asset to its estimated fair value based on a discounted cash flows approach or, when available and appropriate, to comparable market values. As of June 30, 2020 and 2019, no impairment of long-lived assets was recognized.

Noncontrolling Interests

Noncontrolling interest consists of an aggregate of 9.7923% of the equity interests of Puhui Beijing and subsidiaries held by Beijing Synergetic and 40% interest of Beijing Ruchang, Beijing Jiahe, Shanghai Shengshi, Shanghai Shangying and 43% interest of Beijing Haidai held by other investors. Excess of contribution received from noncontrolling shareholders over carrying value of the entity is recorded in additional paid in capital. The noncontrolling interests are presented in the consolidated balance sheets, separately from equity attributable to the shareholders of the Company. Noncontrolling interests in the results of the Company are presented on the face of the consolidated statement of operations as an allocation of the total income or loss for the year between non-controlling interest holders and the shareholders of the Company.

Noncontrolling interest consist of the following:

	June 30, 2020	June 30, 2019
Beijing Synergetic	\$ 17,116	\$ 239,683
Beijing Ruchang	(271,390)	(176,258)
Beijing Jiahe	(277,246)	(220,831)
Shanghai Shengshi	(275,856)	(198,290)
Beijing Shanying	(160,643)	(103,147)
Beijing Haidai	(323,893)	(182,339)
Total noncontrolling interest	<u>\$ (1,291,912)</u>	<u>\$ (641,182)</u>

Leases

Effective July 1, 2019, the Company adopted ASU 2016-02, "Leases" (Topic 842), and elected the practical expedients that does not require the Company 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 fewer, 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. On July 1, 2019, the Company recognized approximately \$2.1 million of right of use ("ROU") assets and approximately \$2.1 million of operating lease liabilities and approximately \$0.1 million financing lease liabilities based on the present value of the future minimum rental payments of leases, using incremental borrowing rate of 6.73%.

The Company determines if a contract contains a lease at inception. US GAAP requires that the Company's leases be evaluated and classified as operating or finance leases for financial reporting purposes. The classification evaluation begins at the commencement date and the lease term used in the evaluation includes the non-cancellable period for which the Company has the right to use the underlying asset, together with renewal option periods when the exercise of the renewal option is reasonably certain and failure to exercise such option which result in an economic penalty. All of the Company's real estate leases are classified as operating leases.

Operating lease ROU assets and lease liabilities are recognized at the adoption date of July 1, 2019 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 use 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 the 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 includes the associated operating lease payments in the undiscounted future pre-tax cash flows.

Income taxes

The Company accounts for income taxes in accordance with U.S. GAAP. Under the asset and liability method as required by this accounting standard, the recognition of deferred income tax liabilities and assets is 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 is 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 profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that taxable profit 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 tax is charged or credited in the income statement, except when it is related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. 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 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 is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. No significant penalties or interest relating to income taxes have been incurred during the years ended June 30, 2020. The Company income tax return filed for December 31, 2019 is subject to examination by Chinese tax authority.

Fair value measurement

The accounting standard 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 Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. The Company considers the carrying amount of cash, accounts receivable, other receivables, short term held-to maturity investments, other payable and accrued liabilities, based on the short-term maturity of these instruments to approximate their fair values because of their short-term nature.

The accounting standards define fair value, establish a three-level valuation hierarchy for disclosures of fair value measurement and enhance disclosure requirements for fair value measures. The three levels are defined as follow:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the 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.

Commitments and contingencies

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

Earnings (loss) per share

Basic earnings (loss) per share are computed by dividing income (loss) available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. As of June 30, 2020 there was no diluted shares.

Defined contribution plan

The full-time employees of the Company are entitled to staff welfare benefits including medical care, housing fund, pension benefits, unemployment insurance and other welfare, 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 out of the amounts accrued. Total expenses for the plans were \$429,354 and \$730,454 for the years ended June 30, 2020 and 2019, respectively.

Recently issued accounting pronouncements

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). ASU 2018-13 removes, modifies and adds certain disclosure requirements in Topic 820 "Fair Value Measurement". ASU 2018-13 eliminates certain disclosures related to transfers and the valuations process, modifies disclosures for investments that are valued based on net asset value, clarifies the measurement uncertainty disclosure, and requires additional disclosures for Level 3 fair value measurements. ASU 2018-13 is effective for the Company for annual and interim reporting periods beginning July 1, 2020. The adoption of ASU 2018-13 will not have a material impact on its consolidated financial statements.

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. 2016-13 for private companies, not-for-profit organizations and certain smaller reporting companies applying for credit losses standard. The new effective date for these preparers is for fiscal years beginning after July 1, 2023, including interim periods within those fiscal years. The Company has not early adopted this update and it will become effective on July 1, 2023 assuming the Company will remain eligible to be smaller reporting company. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes". The amendments in this Update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for the Company for annual and interim reporting periods beginning July 1, 2021. Early adoption of the amendments is permitted, including adoption in any interim period for public business entities for periods for which financial statements have not yet been issued. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period. The Company believes the adoption ASU 2018-13 will not have a material impact on its consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topics 321, 323 and 815. The new standard addresses accounting for the transition into and out of the equity method and measurement of certain purchased options and forward contracts to acquire investments. The standard is effective for the Company for annual and interim periods beginning after July 1, 2022, with early adoption permitted. Adoption of the standard requires changes to be made prospectively. The Company is evaluating the impact of adoption of the new standard on its consolidated financial statements.

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 January 30, 2018, Puhui WFOE entered into Contractual Arrangements with Puhui Beijing and its Participating 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 Puhui Beijing as a VIE. Puhui Qingdao is the general partner in ten limited partnerships and consolidated eight partnerships as disclosed in Note 1.

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. Puhui WFOE is deemed to have a controlling financial interest and be the primary beneficiary of Puhui Beijing because it has both of the following characteristics:

- (1) The power to direct activities at Puhui Beijing that most significantly impact such entity's economic performance, and
- (2) The obligation to absorb losses of, and the right to receive benefits from Puhui Beijing that could potentially be significant to such entity.

Pursuant to the Contractual Arrangements, Puhui Beijing pays service fees equal to 90.2077% of its net income to Puhui WFOE. At the same time, Puhui WFOE is obligated to absorb 90.2077% of Puhui Beijing's losses. The Contractual Arrangements are designed so that Puhui Beijing operates for the benefit of Puhui WFOE and ultimately, the Company.

Under the Contractual Arrangements, the Company has the power to direct activities of the VIEs and can have assets transferred out of the VIEs. Therefore, the Company considers that there is no asset in the VIEs that can be used only to settle obligations of the VIEs, except for registered capital and PRC statutory reserves, if any. As the VIEs are incorporated as limited liability companies under the Company Law of the PRC, creditors of the VIEs do not have recourse to the general credit of the Company for any of the liabilities of the VIEs.

Accordingly, the accounts of Puhui Beijing are consolidated in the accompanying financial statements pursuant to ASC 810-10, Consolidation. In addition, their financial positions and results of operations are included in the Company's audited consolidated financial statements.

The carrying amount of the VIE's consolidated assets and liabilities are as follows:

	June 30, 2020	June 30, 2019
Current assets	\$ 4,346,154	\$ 6,085,868
Property and equipment, net	433,319	223,385
Other noncurrent assets, net	1,531,332	867,756
Total assets	<u>\$ 6,310,805</u>	<u>\$ 7,177,009</u>
	June 30, 2020	June 30, 2019
Current liabilities:		
Deferred revenue	\$ 1,061,162	\$ 227,622
Other payables and accrued liabilities	469,339	744,984
Other payables - related party	5,851	3,029,071
Due to Puhui Cayman	3,057,269	10,512
Current portion of long-term debt	25,835	315,983
Lease liabilities - current	885,832	-
Long-term debt	1,145,825	1,206,565
Lease liabilities - noncurrent	555,796	-
Total liabilities	<u>\$ 7,206,909</u>	<u>\$ 5,534,737</u>

The summarized operating results of the VIEs are as follows:

	For the year ended June 30, 2020	For the year ended June 30, 2019	For the year ended June 30, 2018
Operating revenues	\$ 2,179,172	\$ 3,180,634	\$ 4,139,181
(Loss) income from operations	(2,274,112)	(1,660,384)	303,767
Net (loss) income	<u>\$ (2,512,032)</u>	<u>\$ (2,195,951)</u>	<u>\$ 125,827</u>

Note 4 – Short-term investments and fair value measurement

Short-term investments consist of the following:

	June 30, 2020	June 30, 2019
Marketable securities (1)	\$ -	\$ 172,966
Investments at cost (2)	166,114	169,608
Investments accounted using equity method (3)	349,615	363,652
Total investments	<u>\$ 515,729</u>	<u>\$ 706,226</u>

Fair value disclosure:

	June 30, 2019	June 30, 2019 Fair Value		
		Level 1	Level 2	Level 3
Marketable securities	172,966	172,966	-	-

There is no transfer between the levels for the periods presented.

- (1) As of June 30, 2019, the Company invested a total of \$172,966 in U.S. publicly listed companies. For the year ended June 30, 2020, the Company subsequently sold these investments for a total of \$178,237 resulting in a gain of \$5,271.
- (2) As of June 30, 2020, the Company invested a total of \$163,288 in two entities which invest in U.S. public companies and are still at the funding stage. The Company also invested \$2,826 in another two private equity fund products where cost approximates fair value as of June 30, 2020.
- (3) As of June 30, 2020, the Company invested in a private equity fund in the amount of \$349,615. The Company accounted for the private equity funds using the equity method since the Company is the general partner and owns approximately 8.3% of the fund after the fund completed the second funding stage and was established on May 25, 2018, thus the Company has significant influence. The underlying assets of the fund were invested in the medical and life sciences industry. Investment loss for the year ended June 30, 2020 amounted to approximately \$3,500.

Note 5 – Business acquisition

Acquisition of Granville

On December 3, 2019, Puhui Cayman acquired 100% of the shares of Granville Financial Services Company Limited for HK\$29,390,000 or approximately \$3.8 million. The purpose of this acquisition of Granville is to expand the Company's operations outside of Mainland China and take advantage of its financial qualifications and licenses to broaden the Company's existing product portfolio.

As of June 30, 2020, the company has paid approximately \$3.4 million and approximately \$0.4 million in acquisition payable is due to be paid within one year after the acquisition.

The Company has allocated the purchase price of Granville based upon the fair value of the identifiable assets acquired and liabilities assumed on the acquisition date in accordance with ASC 805. The Company determined the fair values of the assets acquired and liabilities assumed at the acquisition date in accordance with the business combination standard issued by FASB with the valuation methodologies using level 3 inputs, except for cash was valued using Level 1 inputs. Management of the Company is responsible for determining the fair value of assets acquired, liabilities assumed and intangible assets identified as of the acquisition date and considered a number of factors including valuations from an independent appraiser firm. Acquisition-related costs incurred for the acquisitions are not material and have been expensed as incurred in general and administrative expense.

The following table summarizes the fair value of the identifiable assets acquired at the acquisition date, which represents the net purchase price allocation at the date of the acquisition of Granville based on a valuation performed by an independent valuation firm engaged by the Company on November 30, 2019, and translated the fair value from HKD to USD using the exchange rate at the rate of USD 1.00 to HKD 7.82.

	<u>Fair Value</u>	<u>Fair Value</u>
	<u>HKD</u>	<u>USD</u>
Cash	\$ 6,997,259	\$ 894,261
Prepaid expenses	28,944	3,699
Other receivables	269,950	34,500
Plant and equipment	32,633	4,171
Intangible assets	7,500,000	958,512
Goodwill	14,585,528	1,864,053
Total asset	29,414,314	3,759,196
Accounts payable	(10,973)	(1,402)
Other payables and accrued liabilities	(13,341)	(1,705)
Total liabilities	(24,314)	(3,107)
Net asset acquired	\$ 29,390,000	\$ 3,756,089
Total consideration	\$ 29,390,000	\$ 3,756,089
Goodwill	\$ 14,585,528	\$ 1,864,053

Intangible assets consists mainly Type 1 (Dealing in Securities), Type 2 (Dealing in Futures) and Type 9 (Asset Management) securities licenses issued by the Stock Exchange of Hong Kong Ltd and the Securities and Futures Commission of Hong Kong. These licenses enable the Company's subsidiary Granville to trade and deal with securities, futures and manage assets on behalf of customers in Hong Kong.

Pro forma results of operations for the acquisition described above have not been presented because it is not material to the consolidated income statements.

Note 6 – Accounts receivable

	June 30, 2020	June 30, 2019
Accounts receivable	\$ 454,411	\$ 1,853,041
Less: Allowance for doubtful accounts	-	-
Total accounts receivables	<u>\$ 454,411</u>	<u>\$ 1,853,041</u>

The accounts receivable as of June 30, 2020 have been fully collected in August 2020.

Note 7 – Other receivables

Other receivables consist of the following:

	June 30, 2020	June 30, 2019
Security deposits for rents	\$ 516,960	\$ 595,435
Employee advances	2,080	2,677
Others	6,456	-
Subtotal	<u>523,085</u>	<u>598,112</u>
Less: Long-term security deposits	<u>(422,783)</u>	<u>(384,860)</u>
Total other receivables	<u>\$ 100,302</u>	<u>\$ 213,252</u>

Note 8 – Prepaid expenses

Prepaid expenses consist of the following:

	June 30, 2020	June 30, 2019
Consulting fees (1)	\$ 2,428,987	\$ 3,169,545
Rent with lease term under one year	18,103	135,025
Taxes	162,933	90,118
Others	111,788	131,317
Subtotal	<u>2,721,811</u>	<u>3,526,005</u>
Less: Long-term prepaid expenses	<u>(1,599,647)</u>	<u>(2,247,872)</u>
Total prepaid expenses	<u>\$ 1,122,164</u>	<u>\$ 1,278,133</u>

(1) As of June 30, 2020, the Company prepaid approximately \$1.1 million, \$0.5 million, \$0.4 million and \$0.3 million of consulting fees to four third party service providers for various strategic planning and business development consulting services. The consulting service periods ranged from 1 year to 5 years.

Note 9 – Property and equipment, net

Property and equipment consist of the following:

	June 30, 2020	June 30, 2019
Office equipment and furniture	\$ 311,041	\$ 296,767
Vehicle	293,953	143,411
Leasehold improvements	415,092	164,815
Less: accumulated depreciation and amortization	(583,761)	(381,608)
Total	\$ 436,325	\$ 223,385

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 amounted to \$210,905, and \$133,621, respectively.

Note 10 – Intangible assets, net

Intangible assets consist of the following:

	June 30, 2020	June 30, 2019
Software	\$ 12,177	\$ 12,540
Securities license	967,729	-
Less: accumulated depreciation and amortization	(61,119)	(2,299)
Total	\$ 918,787	\$ 10,241

Amortization expense for the years ended June 30, 2020 and 2019 amounted to \$58,784 and \$2,318, respectively.

The estimated amortization is as follows:

Twelve months ending June 30,	Estimated amortization expense USD
2021	\$ 99,208
2022	99,208
2023	99,208
2024	96,976
Thereafter	524,187
Total	\$ 918,787

Note 11 – Other payables and accrued liabilities

Other payables and accrued liabilities consist of the following:

	June 30, 2020	June 30, 2019
Advances from former shareholder (1)	\$ 141,253	\$ 363,652
Salary payables	166,584	214,103
Interest payables	95,394	116,210
Accrued professional fees	150,733	63,344
Accrued rent for lease under one year	37,676	24,676
Others	38,817	26,343
Total	\$ 630,457	\$ 808,328

(1) The advances are provided by a former shareholder, Shanghai Fengshui which the Company has been paid back in fiscal year 2020.

Note 12 - Long term debt

In November 2017, Puhui Beijing entered into two loan agreements for an amount of approximately \$1.5 million with two individuals, which mature in November 2020. The interest rate is 13.5% per annum. Twenty percent of the principal or approximately \$0.3 million, is due in one year from the loan origination date upon request. As of June 30, 2020, approximately \$0.3 million has been repaid and approximately \$1.2 million is outstanding. On October 27, 2020, the Company signed renewal agreements to extend the maturity date to December 31, 2021.

On January 30, 2019, the Company financed a vehicle with a three year loan for approximately \$0.1 million. The Company paid a down payment of approximately \$51,000, with monthly payments of approximately \$2,000 due from February 2019 to January 2022, with an interest rate at 6% per annum. As of June 30, 2020, approximately \$42,000 of loan principal remained outstanding.

Twelve months ending June 30,	Minimum loan payment
2021	\$ 25,835
2022	1,145,825
Total minimum payments required	\$ 1,171,660

Interest expense for the years ended June 30, 2020 and 2019 amounted to \$184,332 and \$199,861, respectively.

Note 13 - Leases

The Company has several offices and car lease agreements with lease terms ranging from two to three years. Upon adoption of ASU 2016-02 on July 1, 2019, the Company recognized approximately \$2.1 million of right of use (“ROU”) assets and approximately \$2.1 million of operating lease liabilities and approximately \$0.1 million of financing lease liabilities based on the present value of the future minimum rental payments of leases, using incremental borrowing rate of 6.73%.

The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants. The leases generally do not contain options to extend at the time of expiration.

As of June 30, 2020, the Company’s operating leases had a weighted average remaining lease term of approximately 1.52 years and the financing lease had a remaining lease term of approximately 2.42 years.

For the years ended June 30, 2020 and 2019, rent expenses for the operating leases were approximately \$1.3 million and \$1.0 million, respectively. Financing lease costs was approximately \$30,000 for the year ended June 30, 2020.

The three-year maturity of the Company’s lease obligations is presented below:

Years ending June 30,	Operating Lease	Financing Lease
2021	\$ 901,513	\$ 51,071
2022	441,918	51,071
2023	64,557	21,280
Total lease payments	1,407,988	123,422
Less: Interest	(79,977)	(9,805)
Present value of lease liabilities	<u>\$ 1,328,011</u>	<u>\$ 113,617</u>

Note 14 – Taxes

Income tax

Cayman Islands and BVI

Under the current laws of the Cayman Islands and BVI, the Company is not subject to tax on income or capital gain. Additionally, upon payments of dividends to the shareholders, no withholding tax will be imposed.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the subsidiary established in Hong Kong is subject to 16.5% income tax on taxable income generated from operations in Hong Kong. In addition, payments of dividends from the Hong Kong subsidiary to the Company are not subject to any Hong Kong withholding tax. The Company did not generate any revenue from operations in Hong Kong since its inception, and therefore is not subject to any income taxes in Hong Kong.

PRC

Under the Income Tax Laws of the PRC, the Company's VIE and the subsidiaries of the VIE are subject to income tax at a rate of 25%.

The Company's income tax expense is as follows:

	For the Years Ended		
	June 30,		
	2020	2019	2018
Current			
China	\$ -	\$ 11,803	\$ 298,935
Hong Kong	-	-	-
Deferred			
China	227,121	380,302	(150,615)
Hong Kong	(47,672)	-	-
Total income tax expense	<u>\$ 179,449</u>	<u>\$ 392,105</u>	<u>\$ 148,320</u>

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

	For the Years Ended		
	June 30,		
	2020	2019	2018
Income tax rate	25.0%	25.0%	25.0%
Effect of permanent difference	6.0%	7.3%	9.6%
Change in valuation allowance	(35.0)%	(46.8)%	19.5%
Effective tax rate	<u>(4.0)%</u>	<u>(14.5)%</u>	<u>54.1%</u>

Deferred tax assets and liabilities

According to tax regulations, net operating losses can be carried forward to offset operating income for the next five years. Significant components of deferred tax assets were as follows:

	June 30, 2020	June 30, 2019
Deferred tax assets:		
Net operating losses	\$ 2,611,874	\$ 2,062,386
Deferred revenues	60,403	56,906
Total deferred tax assets	2,672,277	2,119,292
Valuation allowance	(2,512,557)	(1,772,097)
Deferred tax assets, net	<u>\$ 159,720</u>	<u>\$ 347,195</u>

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 evidences to the extent it could be objectively verified.

The Company's NOL resides with different tax reporting entities. Management has provided a 100% allowance for those NOL's incurred by all its subsidiaries except for Puhui Beijing and Granville because those entities either had historical losses or were in set up stage and thus are not probable to generate adequate taxable income in the next five years. Puhui Beijing's pre-2019 NOL has been fully utilized or management has provided allowances.

Management believes Puhui Beijing and Granville's losses incurred this year was mainly as a result of impact from COVID-19 and the Company believes its continuing utilization of its NOL and its internal forecast of future taxable income based on existing products outweighs the negative evidences of a decrease in revenue and net income for the year ended June 30, 2020. The Company re-evaluated the valuation allowance for deferred tax assets by its PRC entity annually, and made any additions or reversals based on the results of its re-evaluation.

The following table summarizes the changes in valuation allowance for deferred tax assets:

	June 30, 2020	June 30, 2019
Beginning balance	\$ 1,772,097	\$ 997,887
Additions	786,404	805,027
Exchange difference	(45,944)	(30,817)
Ending balance	<u>\$ 2,512,557</u>	<u>\$ 1,772,097</u>

Taxes payable consisted of the following:

	June 30, 2020	June 30, 2019
VAT taxes payable	\$ 80,565	\$ -
Other taxes payable	6,091	10,512
Totals	<u>\$ 86,656</u>	<u>\$ 10,512</u>

Note 15 – Concentration of risk

Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash. As of June 30, 2020 and 2019, \$130,154 and \$267,636 were deposited in banks located in the PRC, respectively. \$40,085 and nil of these balances are not covered by insurance as the deposit insurance system in China only insured each depositor at one bank for a maximum of approximately \$70,000 (RMB 500,000). The Hong Kong Deposit Protection Board pays compensation up to a limit of HKD \$500,000 (approximately \$73,000) if the bank with which an individual/a company hold its eligible deposit fails. As of June 30, 2020 and June 30, 2019, \$614,255 and \$1,736,989 were deposited in banks located in Hong Kong, respectively. \$544,570 and nil of these balances are not covered by insurance.

Customer concentration risk

For the year ended June 30, 2020, three customers accounted for 40.5%, 18.4% and 13.8% of the Company’s revenues. For the year ended June 30, 2019, three customers accounted for 33.7%, 14.3% and 13.6% of the Company’s revenues.

As of June 30, 2020, three customers accounted for approximately 90.6% of the Company’s accounts receivable. As of June 30, 2019, five customers accounted for approximately 86.9% of the Company’s accounts receivable.

Note 16 – Segment reporting

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 CEO, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Company.

Based on the 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 value-added wealth management services.

The following table presents revenue by major service categories (from third parties and related parties) for years ended June 30, 2020 and 2019, respectively:

	For the Year Ended June 30, 2020	For the Year Ended June 30, 2019	For the Year Ended June 30, 2018
Investment advisory	\$ 2,102,109	\$ 3,117,548	\$ 4,000,802
Fund management	77,371	63,086	138,379
Total revenues	<u>\$ 2,179,480</u>	<u>\$ 3,180,634</u>	<u>\$ 4,139,181</u>

All of the Company’s revenue are derived from, and its assets are located in the PRC and Hong Kong.

Note 17 – Related party transaction

Accounts receivables – related party consisted of the following:

	Relationship	June 30, 2020	June 30, 2019
Beijing DongfangPuzhong Consulting Center (Limited Partnership)	Shareholder of Puhui Beijing	\$ 42,376	\$ 358,561
Beijing DongfangHenghui Consulting Center (Limited Partnership)	Shareholder of Puhui Beijing	635,638	654,574
Beijing Ruqi Consulting Center (Limited Partnership)	Owned by Mr.Zhe Ji, shareholder of Puhui Beijing	353,132	-
Beijing Rusan Consulting Center (Limited Partnership)	Owned by Mr. Zhe Ji, shareholder of Puhui Beijing	107,352	-
Total		<u>\$ 1,138,498</u>	<u>\$ 1,013,135</u>

Other receivables – related party consisted of the following:

	Relationship	Nature	June 30, 2020	June 30, 2019
Beijing Sipaike Customer Management Consulting Co., Ltd.*	Under common control of shareholder of Puhui Beijing	Short term cash advance	\$ 1,269,138	\$ 1,647,858
Beijing DongfangHenghui Consulting Center (Limited Partnership)	Shareholder of Puhui Beijing	Short term cash advance	15,538	-
Total			<u>\$ 1,284,676</u>	<u>\$ 1,647,858</u>

* As of June 30, 2020, the Company advanced RMB 8.9 million or approximately \$1.3 million to Beijing Sipaike Customer Management Consulting Co., Ltd. The loans are due on demand and bear an interest rate is 0.5% per month. Interest income amounted to approximately \$74,000 and \$49,000 for the years ended June 30, 2020 and 2019, respectively.

Other payables – related party consisted of the following:

	<u>Relationship</u>	<u>Nature</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Ji Zhe	Shareholder of Puhui Beijing	Advance from shareholder	\$ 483	\$ -
Beijing Sipaike Customer Management Consulting Co., Ltd.	Shareholder of Puhui Beijing	Advance from shareholder	5,153	-
Beijing Huicai Hengyun Consulting Center (Limited Partnership)	Shareholder of Puhui Beijing	Advance from shareholder	698	-
Total			<u>\$ 6,334</u>	<u>\$ -</u>

Revenues – related party consisted of the following:

	<u>Relationship</u>	<u>For the years ended June 30,</u>		
		<u>2020</u>	<u>2019</u>	<u>2018</u>
Peng Ji	limited partner of Beijing Puhui Rushun Management Consulting Center Limited Partnership	\$ -	\$ 112,704	\$ -
Beijing DongfangHenghui Consulting Center (Limited Partnership)	Shareholder of Puhui Beijing			649,334
Beijing DongfangPuzhong Consulting Center (Limited Partnership)	Shareholder of Puhui Beijing			355,691
Beijing Synergetic SIFT Asset Management Co. Ltd.	Minority shareholder of Puhui Beijing			170,702
Xinyu Jiji Investment Center (Limited Partnership)	Company's investee under equity method	15,171	15,559	169,069
Beijing Rululu Consulting Center (Limited Partnership)	Owned by Mr. Zhe Ji, shareholder of Puhui Beijing	107,214	-	-
Beijing Ruqi Consulting Center (Limited Partnership)	Owned by Mr. Zhe Ji, shareholder of Puhui Beijing	402,053		-
Beijing Rusan Consulting Center (Limited Partnership)	Owned by Mr.Zhe Ji, shareholder of Puhui Beijing	128,657		-
Xinyu Yuanyuan Investment Center (Limited Partnership)	Company's investee under equity method	44,405		-
Total		<u>\$ 697,500</u>	<u>\$ 128,263</u>	<u>\$ 1,344,796</u>

Note 18 – Equity

Ordinary shares issuances

On November 30, 2017, 10,000,000 ordinary shares of the Company were issued to the Participating Shareholders in connection with the restructuring of the Company. 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.

On May 18, 2018, the Company's Board of Directors approved a 10-for-1 forward stock split. Upon completion of the split, 1,000,000 authorized but unissued ordinary shares are re-designated as preferred shares with par value of \$0.001. All shares and per share amounts in the consolidated financial statements have been retroactively restated to reflect the stock split and re-designation of shares.

On December 27, 2018, the Company successfully closed its initial public offering ("IPO") and sold an aggregate of 1,507,558 ordinary shares at a price to the public of \$6.0 per share for total gross proceeds of \$9.05 million before expenses and underwriting commissions, netting approximately \$8.03 million.

Restricted net assets

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiary. Relevant PRC statutory laws and regulations permit payments of dividends by Puhui WFOE, Puhui Beijing and its fully owned subsidiaries only out of its 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 Puhui WFOE, Puhui Beijing and its wholly owned subsidiaries.

Puhui WFOE, Puhui Beijing and its wholly owned subsidiaries 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 its registered capital. In addition, Puhui WFOE, Puhui Beijing and its wholly owned subsidiaries may allocate a portion of its after-tax profits based on PRC accounting standards to 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 State Administration of Foreign Exchange.

As of June 30, 2020 and June 30, 2019, no statutory reserve has been attributed by Puhui WFOE, Puhui Beijing and its wholly owned subsidiaries.

As a result of the foregoing restrictions, Puhui WFOE, Puhui Beijing and its wholly owned subsidiaries are restricted in their ability to transfer their net assets to the Company. Foreign exchange and other regulation in the PRC may further restrict Puhui WFOE, Puhui Beijing and its wholly owned subsidiaries from transferring funds to the Company in the form of dividends, loans and advances. As of June 30, 2020 and June 30, 2019, amounts restricted are the net assets of Puhui WFOE, Puhui Beijing and its wholly owned subsidiaries, which amounted to \$7,280,340 and \$11,808,072, respectively.

Employee Stock Compensation

The Puhui Wealth Investment Management Co., Ltd. 2018 Equity Incentive Plan ("Incentive Plan") was approved by the board of directors on June 15, 2018 by unanimous written consent. The Incentive Plan, which will be administered by the Compensation Committee of the Company's Board of Directors, allows for awards up to a maximum of 1,500,000 restricted ordinary shares. Under the Incentive Plan, the Compensation Committee may grant ordinary shares to directors, officers, managers, employees, consultants and advisors of the Company or affiliates; provided, that the Compensation Committee may not grant to any one person in any one calendar year awards for more than 150,000 ordinary share in the aggregate. No shares have been granted as of the date of this report.

Note 19 – Commitments and contingenciesContingencies

From time to time, the Company may be subject to certain legal proceedings, claims and disputes that arise in the ordinary course of business. Although the outcomes of these legal proceedings cannot be predicted, the Company does not believe these actions, in the aggregate, will have a material adverse impact on its financial position, results of operations or liquidity. As of June 30, 2020, the Company was not aware of any litigations or lawsuits against them.

Note 20 - Subsequent events

On July 28, 2020, the Company approved to dissolve Beijing Ruchang Management Consulting Co., Ltd. Beijing Ruchang was subsequently dissolved on September 11, 2020.

On August 12, 2020, the Company filed a prospectus on the Form F-3 to offer the securities to register an aggregate value of up to US\$66,000,000 of the Company's securities. The Company filed amendments in September and October 2020 and is pending approval from the SEC.